

CORE BANKING, 10X BETTER

THE FUTURE OF CREDIT

Why cards are a huge
untapped opportunity
for banks



10x

Introduction

Even though technology, consumer behavior, and finance are always evolving, credit card products from banks have largely stayed the same. Of course, some things have changed: signatures are being replaced by biometrics, some retailers don't even require us to queue to pay, and new models for repayments, such as Buy Now Pay Later (BNPL) are growing exponentially.

Back in the 1980s, Access, who are now Mastercard, ran an ad campaign that positioned their credit card as a flexible friend. The offering? A credit facility with a charge card that was there to help people spread the cost of everyday items. Fundamentally, this is the same offering as we see from banks today.

That's why, at 10x, we believe that credit cards are an area of untapped innovation just waiting to happen. The continued rise of digital payments, changes in the perception of credit, and the fusion of the two, are just some of the forces that create an opportunity for banks to get closer to their customers.

In this guide, we'll cover:



What has changed since the days of flexible friend



Paymentology's perspective on how credit is evolving



How traditional banks and challenger credit products differ



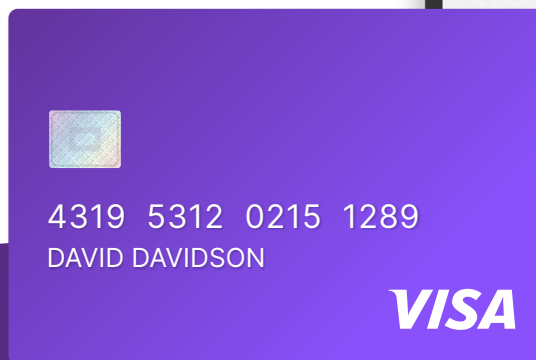
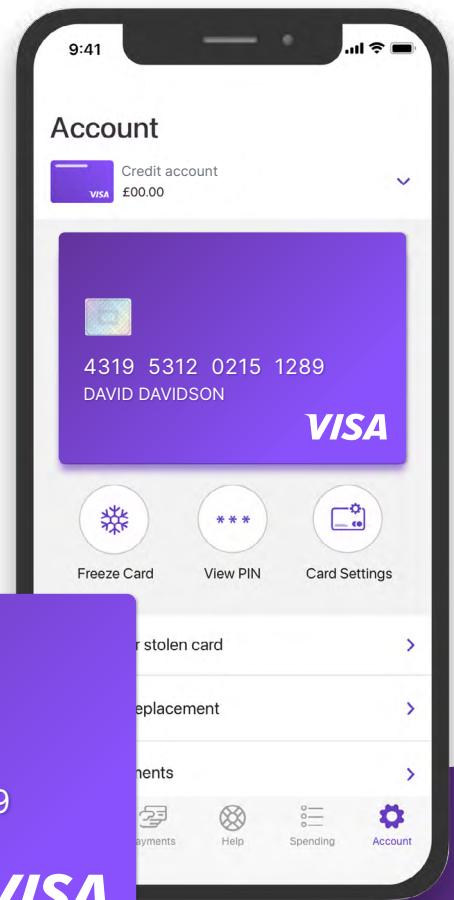
How to bring the credit card lifecycle into 2023

70x

Innovation in cards today

While credit card products from banks haven't changed a great deal since the 80s, a new school of challenger brands are beginning to reshape the face of short-term lending. From BNPL to instant activation with virtual cards, credit is getting more flexible and fast paced.

Let's take a look at some of these innovations in more detail.



More ways to pay

We aren't tied to physical, plastic credit cards anymore. Solutions like Google Pay and Apple Pay digitize the physical wallet, enabling payments through mobile and wearable devices. Some providers, such as Curve, allow users to aggregate all their accounts through one app. Payments and withdrawals are made from a single card. Customers can then repoint their transactions to different accounts if they wish, after the payment is complete.

Digital-first credit solutions, such as Zilch, are bringing credit to customers faster. Instead of waiting 3-5 working days for a plastic card to arrive, a virtual card is available as soon as customers are accepted, which can be added to digital wallets and used straight away.

Smarter financial management

It may have been novel in the 80's, but a credit facility that's solely tied to a plastic card is inflexible by today's standards. A range of non-plastic credit products from the likes of Klarna, Paypal Credit, and Monzo Flex, are reshaping lending.

"Credit card issuers offering perks like longer grace periods, payment holidays, or snoozable payments are popular with a financially savvy generation," explains Simona Das, Senior Product Manager at 10x. "Customers want the option to convert payments into a series of instalments with lower or no interest rates attached, without opening a new lending facility."

According to YouGov, 44% of global consumers are more likely to use a credit card for budgeting purposes, compared to a year ago. "With modern credit facilities, customers can impose spending limits on certain categories, such as retail or eating out, in order to help budget effectively." Simona adds.

Monzo's Flex product blurs the boundaries between credit and BNPL. Customers can flex transactions from the past two weeks into an interest free credit payment, enabling them to spread the cost of everyday items while making interest rates work in their favor.

Data-driven rewards

Airline miles, hotel points, cashback, and other rewards are standard credit card perks. Interestingly, Europeans are the least happy with their card rewards, a recent [YouGov survey](#) recently found out.

But challengers are doing their best to change this. Zilch offer consumers voucher codes based on where they spend. Alongside their BNPL capability, this offers customers a consolidated way to get the best price, combined with a flexible way to pay. Monese, a digital current account provider, integrate with Avios, offering customers a way to earn travel rewards without a credit card. Alongside this, Monese also offer weekly discounts for a changing roster of retailers, saving customers money on everyday items.

Paymentology's perspective on the future of credit



**In discussion with David Oppenheim –
Global Head of Ecosystem Partnerships at
Paymentology**

How have credit card propositions and supporting operating models changed over the years?

"It can easily be said that mainstream credit card propositions have changed slightly over the years. Well-established card operations and systems have supported large customer volumes for the major issuing banks and monoline credit card providers. The introduction of contactless cards has driven up the frequency of usage and adoption of mobile apps to help customers understand card spend. Still, the underlying credit card proposition has changed somewhat.

Evidently, credit cards are strongly linked to market conditions. In a post-covid world and with the fear of a recession, consumers are shifting back to credit card spending from debit cards. The market has changed, too, with many card program companies flourishing across markets. Technology has powered some new market entrants to provide more flexible credit

card offerings, for example, using open banking data to target new customer segments and providing new credit card models like weekly cycles better suited to specific customer finances. Credit cards offer companies of all sizes profits due to the interchange fees and interest income generated from these.

Probably the most significant development has been the growth (and decline) of BNPL providers. The growth of BNPL has demonstrated the customer appetite for flexible and intuitive borrowing options at the time of purchase; the opportunity is there for credit card providers to leverage technology changes and launch their own flexible credit card alternatives.

It is particularly new models such as credit as a service that inflict new dynamics; any player can launch a card offering supported by a licensed institution. BIN sponsoring is now a model that is readily available and professionalized."

Where have the most significant advances been made?

“There are three distinct changes happening in parallel driving the increased uptake and usage of credit cards. Firstly, banking as a service (BaaS) & BIN Sponsorship models are making it possible for smaller entrants to create card programs, leveraging the licenses, technology stacks, and occasionally balance sheets of their sponsor banks. New players can launch and experiment or target niche segments in ways that simply wouldn’t have been commercially viable before.

New data sources like Open Banking are enabling players to acquire, onboard, and underwrite customers with less friction and cost than before. Lastly, card usage (and acceptance) is rising globally, facilitated in part by the adoption and advancement of technologies around virtual and contactless cards. What does all this mean? A customer can launch a new program in months, and individual customers can apply, be credit-approved via Open Banking data, and be issued a virtual card to their phone in minutes.”

Which areas are yet to develop as you might have expected?

“Many financial institutions have focused on providing highly personalized propositions for customers. In the credit card industry, this has particularly revolved around providing reward packages that are tailored to individual customers and driven by identifying trends in customer spend.

Reward programs are certainly a big part of the credit card industry, but most of these are cash-back rewards linked to card usage. The lack of capabilities in small businesses is also

an area that has not developed as we would have expected.”

Any notable flops?

“One size fits all rewards are a thing of the past. We are in the world of hyper-personalization, and financial institutions (FIs) should know the customer, considering all the data they process.”

What are your predictions for the future of credit cards?

“Credit card providers will seek to provide more flexible solutions to help customers better manage their finances, i.e., combining revolving credit accounts for day-to-day spend and installment accounts to spread the cost of larger purchases. Visa and Mastercard installment services will enable credit (and debit) card providers to provide flexible credit options to their customers at the time of purchase, which could be online or in-store – taking over where the BNPL providers have started. The cost of credit could be funded by the merchant or shared with customers.

More FIs and fintechs will turn to processors that can offer all-in-one services, enabling them to focus on client relationships, understanding their data, and growing card issuing, processing, fraud prevention, dispute management, etc. It is possible that the future will also result in blurred lines between loans and credit cards, meaning larger purchases could be made possible over time.”

70x

If the tech is available, why are legacy banks failing to innovate?

While banks' core propositions haven't changed in recent times, today's challengers are leading on customer experience, targeted offers, and real-time experience.

Challenger



Zilch

BNPL: pay in 4 interest free, with up to 5% back when you pay in full, snooze payments from the app, build credit score through BNPL.



Monzo Flex

Spread the cost of purchases over 3 interest free instalments. Pay in instalments for historical purchases, those made online or in person.

Legacy



Barclaycard Platinum Balance Transfer and Purchase

0% on purchases for 25 months, 0% balance transfer for 22 months, 2.9% fee.



Sainsbury's bank

Up to 0% on balance transfers for the first 18 months and 0% interest on purchases for the first 12. Collect up to 5000 Nectar points in your first two months.

Are banks catching up with challengers?

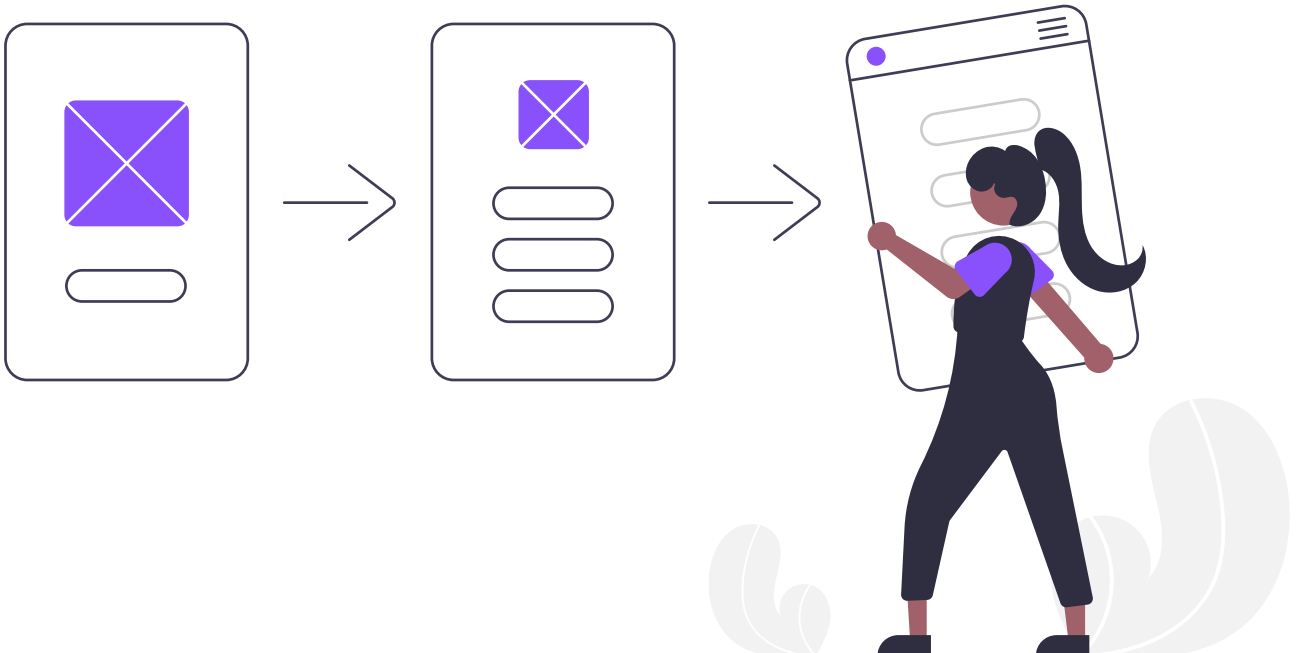
New research from Built For Mars founder Peter Ramsey suggests challenger banks are innovating faster, deploying updates 4.6x more frequently than incumbents, with legacy debt as one of the blockers to innovation. He researched and benchmarked the user experience of 12 UK banks showing that the narrative of legacy banks catching up is largely false.

“Back in 2020, when I started the study, I genuinely believed that these high street banks were just slow to predict change and would eventually catch up. Now I’m less sure they’ll ever catch up, at least, not without changing their core DNA.

Having spoken privately to most of these high street banks, I genuinely believe that they’re trying to change, and the employees aren’t incompetent. Rather, they’re drowning in legacy debt and have no means out without radical change—which is costly, risky, and they don’t want to turn the applecart.

Why do legacy banks still send such boring envelopes and cards? It’s so automated it lacks personality. Someone at these companies needs to be thinking about the small details, and obsessing over the experience.”

[Read the full blog here](#)



Transforming the cardholder lifecycle

It's not just offers, rewards, and repayments where banks can make the difference. At 10x, we believe the entire cardholder lifecycle can be transformed. Here's how.



Create and configure

Alison is a Product Manager in a bank. In Bank Manager, she creates a new credit card product. She configures the product features for the card and sets the launch date in time for Black Friday.



Offer and acceptance

Paul's bank sees that he is two weeks away from payday. Three large irregular retail payments are due and will take him overdrawn. They call him and offer him £5,000 credit, 19.9% APR and, since they partner with his favorite retailers, offer him 2% cash back when he shops in store with them. Paul accepts.



Fulfilment

Instantly, Paul's credit card account is created. A virtual card is available in his app, so he has immediate access to credit. A physical card is sent out, but Paul can begin using the facility straight away.



Utilisation and servicing

The bank start to send Paul his bills for repayment of the balance with any accumulated fees and interest, which Paul pays by scheduled pull payments each month.



Repayments

In the new year, Paul continues to pays his instalments and finds he has surplus at the end of February. He decides on an ad hoc payment to reduce his debt and subsequent interest.

10x Customer Solutions

Here's some of the functionality available for banks to create future-facing cards propositions with SuperCore, our cloud-native core banking platform.

Smarter financial management

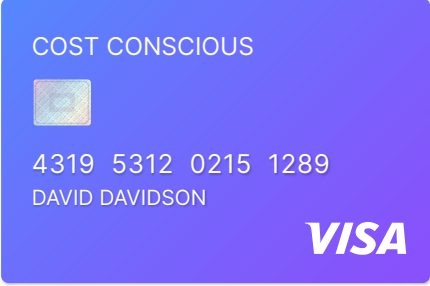
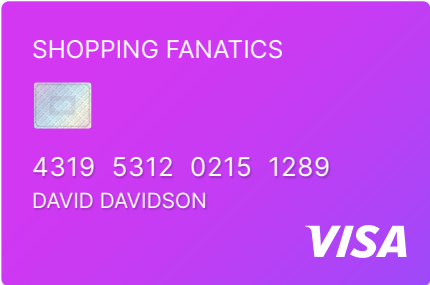
Using enriched and real-time transaction data to share offers and rewards, banks can tap into their customers values and buying behaviors. Create targeted offers and instant cashback propositions by accessing merchant, location, transaction value, and payment channel data in real time.

i

Payday rewards!

You spent an average of **£150 at ASOS online** in the last 3 months #supportlocal and get **20% off** these brands in your area when you buy in store

[Apply now](#)




Cost Conscious Cashback

5% instant cashback for weekly shops over £100 at Aldi this month

[Find out more](#)

x



Offer: turn your spending green

0% interest for 6 months and 2% instant cashback when you buy from eco-conscious companies

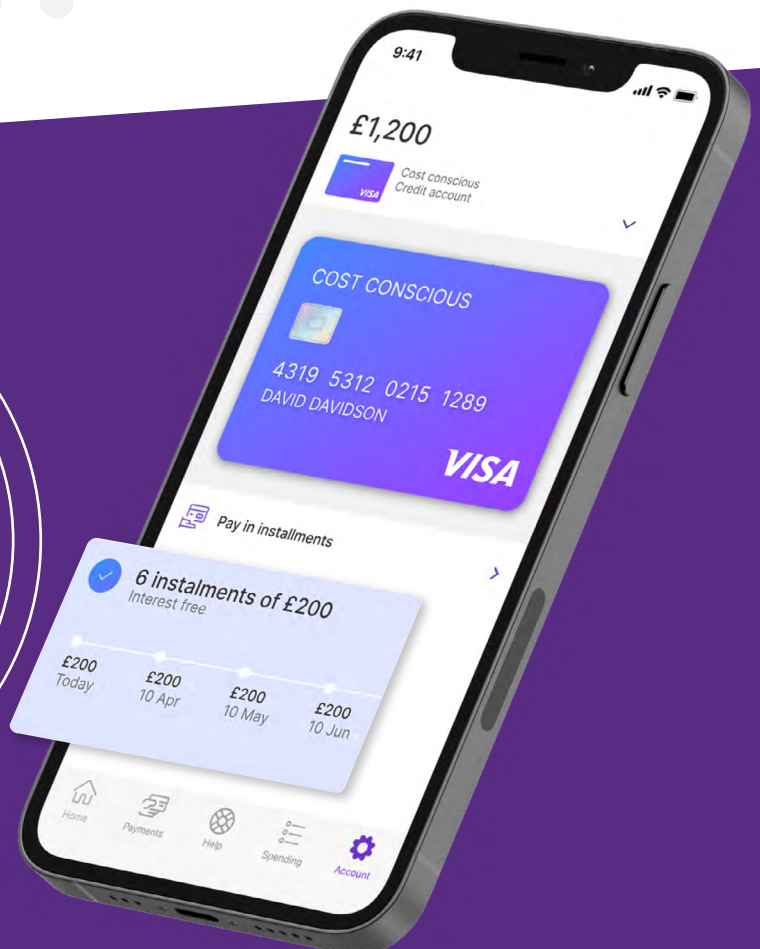
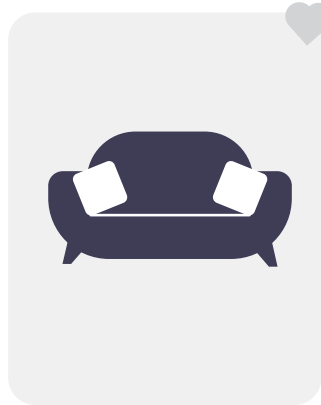
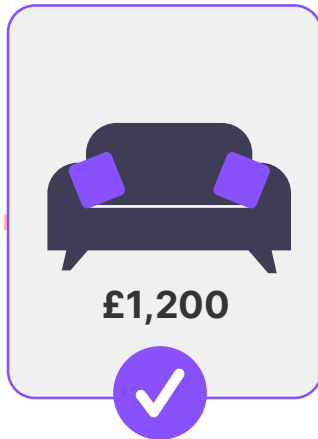
[Go green](#)

70x

Life-driven money management

Re-imagine the credit facility

Think like your customers – with merchant-level data you can combine traditional credit facility and BNPL, offering instalment plans for individual transactions at point of sale online or in stores.



A new way to manage recurring payments

Would your customers understand why they can create, update, and cancel direct debits from their online banking but not card payments?

With tokenization, you can offer greater financial control with transparency over card payments, allowing your customers to manage them like direct debits (and even set retrospective payment terms for individual purchases).



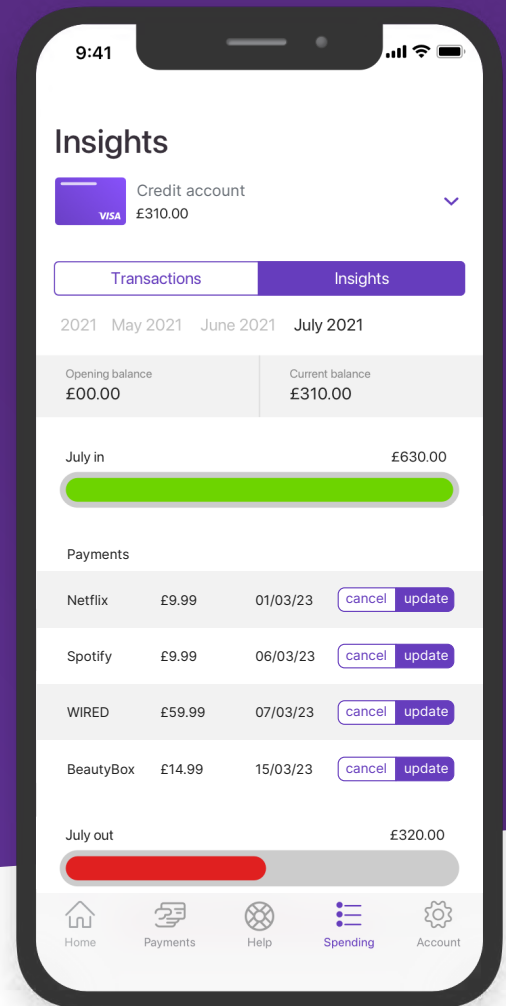
A new way to take control of outgoings



See recurring card payments



Manage card payments like direct debits



World class service

Resolve loss or theft in record time and prevent fraud with simple self-service for instant replacement, freezing and merchant and geographic transaction controls.

Simplify agent tasks from Case Management to payments, complaints and closure with Service Accelerator, with a real-time, single view of the customer supported by live fraud and AML monitoring and decisioning.



Resolve loss or theft in record time



Prevent fraud with simple self-service



Simplify agent tasks with real-time customer view

10x

How to close the challenger gap

While the comparison between digital-first challengers and incumbent banks is hardly new, there's a clear distinction between the two when it comes to credit products. Traditional offerings are structured similarly, with little personalization, while new players' are providing flexible functionality that speaks directly to customers, making financial management easier.

Legacy technology, a well-known pain point, prevents banks from making advances and taking credit products beyond cards. The customer experience is everything in modern cards, as our interviewees attested, with the effective use of data in real-time key to moving away from a one size fits all approach.

There's no overnight fix here for credit card divisions – digital transformation from the core outwards is needed for banks looking to catch up and compete. Despite the challenges associated with moving away from legacy technology, it's an achievable goal for banks. Market conditions are driving credit card usage, which may make for an opportune time to start driving change.

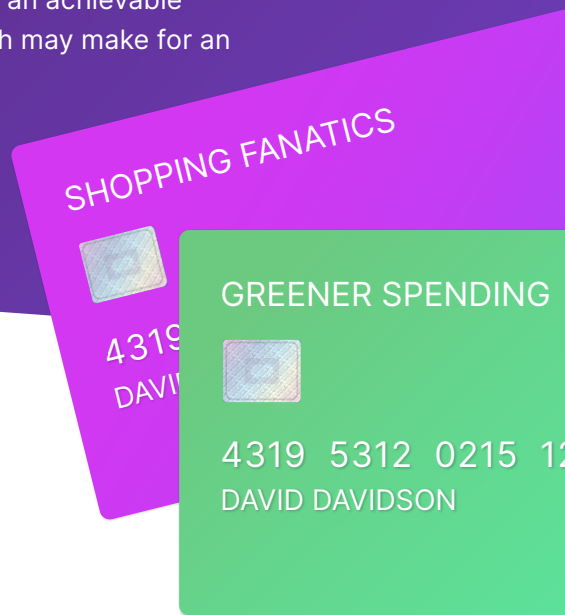
At 10x, our SuperCore® Cards platform helps banks:

- ✓ Bring next-gen cards propositions to market quickly and cost-effectively
- ✓ Deliver innovative credit features that challenge the status quo
- ✓ De-risk innovation with a ready-made tech ecosystem that reduces the load on your people

Giving you everything you need to shrink time to market from 12 months to just 12 weeks.

Get in touch

10xbanking.com | hello@10xbanking.com



10x

Making banking
10x better