THE PAYPERS

Insights into Payments and Beyond

The Paypers' Global Payments and Fintech Trends Report 2024

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Introduction

Oana Ifrim
Lead Editor at The Paypers

As the payments sector undergoes continuous evolution, one undeniable truth emerges: the interplay of technology, innovation, regulation, and talent is steering its trajectory. Keeping pace with this evolution and understanding the driving forces behind its growth is imperative for individuals and businesses navigating this dynamic landscape.

The Paypers' Global Payments and Fintech Trends Report 2024 serves as a guiding light, spotlighting significant trends for 2024 and beyond on a global scale. Drawing from insights provided by payments and fintech experts worldwide, we offer a diverse perspective to help businesses and financial institutions gain clarity on emerging growth areas. Our strategic analysis, supported by the latest payments and fintech market forecasts, goes beyond mere buzzwords, empowering all players in this industry to chart their path to success with actionable strategies and recommendations.

The Paypers has gathered insight and expertise from dozens of leaders representing companies operating right across the financial services spectrum. Our engagement for this report involved extensive discussions with innovation leaders, technologists, and industry experts from top financial institutions, businesses, solution providers, payment companies, and leading consultancies monitoring the latest innovations and trends in payments and fintech across key markets worldwide.

The Global Payments and Fintech Trends Report 2024 covers a spectrum of essential aspects:

- **Cutting-edge predictions**: A strategic assessment of significant trends, covering instant payments, fraud prevention, Embedded Finance, Open Finance, BNPL, digital currencies, and more, offering a comprehensive overview of industry developments.
- **Valuable, quantifiable insights**: A clear perspective on emerging growth areas, enabling stakeholders to understand the industry's trajectory.
- **Advantage through intelligence**: Our report empowers businesses to explore new opportunities, make informed decisions, and gain a competitive edge, leveraging intelligence and educational resources to navigate this complex landscape.
- **Global dynamics**: From the US to Latin America, Europe, and Asia, our report explores unique influences on the industry's growth, examining how different regions shape the payments landscape through demographic shifts, political considerations, technological innovations, and regulatory changes.

In the ever-changing landscape of global finance, fintech is undergoing a seismic shift, moving away from traditional structures towards a more equitable and efficient system fuelled by digital assets and AI. Geopolitical tensions, the climate crisis, and pivotal elections worldwide are shaping financial regulations, demanding responsible innovation. The crypto domain anticipates a resurgence, while fintech startups pivot towards profitability. Stakeholders navigate a spectrum of impacts, from positive regulatory dialogues to challenges for SMEs. Amidst this, opportunities arise in financial education, addressing the unbanked, and the personalisation of AI-driven services. →

- **Threats and opportunities analysis**: Analysing both threats and opportunities in the competitive ecosystem and their impact on various stakeholders.
- **Future outlook**: Offering insights into expected outcomes over the next 5 years, the report provides a forward-looking perspective, equipping stakeholders with a roadmap for anticipating and preparing for future industry shifts.

Some key takeaways: anticipated trends for 2024 and beyond

Embedded Finance gains momentum: In 2024, Embedded Finance is set to experience rapid growth. Shift signifies a move towards greater financial inclusion and increased accessibility, enabling non-financial businesses to enhance customer offerings.

Cross-border payments are undergoing a major transformation: The cross-border payments industry is poised for significant change, led by a focus on real-time, interoperability, and cost-effectiveness. Fintechs are the main focus as they are building the infrastructure for real-time cross-border transactions.

At the same time, the emergence of central bank digital currencies (CBDCs) will play an important role in emerging collaboration, with greater emphasis on compliance and security. The aim is to provide faster, safer, and more transparent cross-border transactions.

What`s more, the surge in stablecoins is paving the way for better economic interoperability and streamlined worldwide commerce. Latin America, specifically, stands as a pioneer in this transformative wave, showcasing fast adoption and integration of virtual currencies into everyday monetary transactions. The digital payments revolution, initiated amid the pandemic, is now solidifying, increasing the interest in cryptocurrencies across Latin America.

Citing information from a Mastercard **survey**, a substantial percentage (51%) of customers in the area have actively used virtual currencies for purchases, with approximately 1/3 choosing stablecoins in their routine shopping activities. This widespread preference for digital currencies is propelled by a large portion of the population having limited access to standard banking offerings, providing an alternative towards a crucial financial lifeline for the underbanked communities.

Latin America's fintech landscape is rapidly embracing USDC, for instance, for various use cases. This includes ecommerce platforms integrating digital dollars to enhance transparency and interoperability. Additionally, remittance platforms are leveraging USDC for streamlined cross-border transactions, marking its growing significance in the region's financial technology landscape.

A2A payments challenge card dominance: A2A payments are set to directly challenge card payments in ecommerce, particularly impacting European markets. A movement is underway to reduce the primary role of cards, driven by a desire to cut costs for merchants and commoditise payment services.

Public digital infrastructure gains traction: The trend towards public digital infrastructure, similar to India's India Stack, is anticipated to gain global traction. Recognising its pivotal role in fostering a thriving digital economy, more countries are expected to explore its development.

Banks embrace the open ecosystem: Banks are investing progressively in the open ecosystem, encompassing Open Banking, BaaS, and Embedded Finance, with notable momentum and commercial gains expected.

Focus on compliance and security persists: In response to global conflicts and evolving regulations, there is a growing emphasis on compliance and security. Trends from 2023, including increased use of AI and machine learning for sanctions screening and transaction monitoring, continue to shape the landscape. →

Crypto resurgence: In the cryptocurrency realm, there is anticipation of a resurgence following the end of the crypto winter. Fintech startups are shifting their focus from relentless growth to prioritising profitability, and the concept of public digital infrastructure is gaining prominence globally.

Generative AI technology holds promise: Generative AI holds promise in financial services, offering numerous use cases to enhance existing tools and processes. However, it comes with risks, and firms must develop new business processes, risk, and regulatory frameworks.

Digitalisation and sustainability: These remain focal points for the European Commission in 2024, addressing potential disadvantages for vulnerable consumers in various legislative proposals. Initiatives such as the Accessibility Act and PSD3/PSR emphasise accessibility, protection, and inclusion for vulnerable groups in financial services.

Global economy and balancing innovation amidst tensions: The landscape of the global economy is heavily influenced by geopolitical tensions, the ongoing climate crisis, and crucial elections in various states. Policymakers are increasingly emphasising responsible innovation and technology application to address these challenges. This underscores the need for a careful balance between technological advancements and global risks.

Fintech market matures: The fintech market is transitioning into a phase where innovation for innovation's sake is no longer a viable strategy. Economic pressures and intense competition drive the need for genuine progress on key pain points.

Rise of payment APIs and optimisation: Payment APIs are on the rise, constituting 34% of observed functionalities, with a global focus on instant payments. In 2024, businesses increasingly adopt payment optimisation to enhance revenue by streamlining transactions and addressing issues like declined payments and checkout complexity.

Traditional institutions embrace crypto-assets: Traditional financial institutions are undergoing a significant transformation, bridging the gap with crypto-assets. This involves creating crypto-related areas within banks for digital asset structuring, trading, and custody, driven by friendly regulations, specialised service providers, and the development of CBDCs (and stablecoins).

Anticipating a golden age of fintech: Anticipating a golden age of fintech, the industry emphasises profitability overgrowth, with Asia expected to lead by revenues in 2030. The return to first business principles mirrors broader technology trends and risk management plays a pivotal role. The tokenisation of assets, the shift towards Web3, and the growing importance of digital public infrastructure define the essence of fintech developments.

Amid the fintech and payments industry transformation, this report serves as a thorough guide to the trends shaping its evolution. *The Paypers' Global Payments and Fintech Trends Report 2024* equips everyone in the financial services industry with valuable insights for strategic decision-making. Enjoy your read!

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Global Fintech Evolution: Key Trends, Impacts, and Opportunities Shaping Payments in Asia Pacific and Europe

Looking ahead, we're anticipating the end of the crypto winter and a strong emphasis on responsible innovation. Exciting opportunities lie in addressing financial inclusion, adapting to geopolitical shifts, and enhancing societal stability. Envisioning the future, we see a golden age for fintech on the horizon, with Asia at the forefront. Key developments in tokenisation, Web3, and digital public infrastructure are poised to shape the landscape over the next five years.

Elevandi

Elevandi

Pat Patel and Matthias Kröner from Elevandi provide insights into key trends shaping fintech and payments in Asia Pacific and Europe.

Pat Patel: Founded Elevandi during his time at the Monetary Authority of Singapore and has since led the non-profit organisation to expand sustainably across Asia, Europe, and Africa.

Pat Patel ▪ *Executive Director* ▪ Elevandi

Matthias Kröner: Matthias Kröner is a highly respected thought leader when it comes to planning, building and operating disruptive and customer-centric banking business models.

Matthias Kröner ▪ *Managing Partner, EMEA* ▪ Elevandi

The authors highlight a shift towards rearchitecting the financial services system, leveraging technologies like digital assets and artificial intelligence. This interview underscores the imperative of addressing global financial inclusion challenges through responsible innovation, while deftly navigating geopolitical complexities. Opportunities abound in serving the unbanked, advancing financial education, and harnessing AI for personalised services.

> “ *In the upcoming years, global shifts in politics, economics, and technology, including the climate crisis and geopolitical challenges, pose complexities for fintech. Navigating this requires a balance of advanced technologies and responsible innovation, positioning fintech as a force for positive change in uncertain times.*

From your perspective, what are the key trends currently shaping payments in the fintech landscape in Asia Pacific and Europe?

Pat Patel: From my perspective, there’s a noticeable push across Asia and beyond to rearchitect the existing financial services system. This involves moving away from legacy infrastructure in payment and banking services. The focus now is on applying technologies to address various issues. The primary goal is to make the financial services system more equitable, transparent, faster, and cost-effective. The application of new technologies, especially digital assets, and artificial intelligence, plays a crucial role in enhancing efficiency. Additionally, the early stages of quantum computing are becoming apparent, amplifying the capabilities of artificial intelligence in data analysis for consumer and business services. →

This overarching trend is gaining momentum, with regulators actively participating in the dialogue. A notable shift from the past, where policymakers seldom engaged with the industry. In Southeast Asia, for instance, we're witnessing the construction of payment bridges between countries with real-time payment systems. These bridges, such as those between Singapore and Thailand, Malaysia, and India, enable seamless transactions with minimal costs. Individuals can send payments using just a mobile phone number, providing a foundation for organisations to offer valuable services on top of these bridges. This signifies a significant shift in rearchitecting the financial services system.

Another noteworthy development is the shift in focus among fintech startups from growth at all costs to prioritising first principles and profitability. While this shift poses challenges, it also brings opportunities. The past few years have been tough for many fintechs due to drying funding sources, leading to a substantial number of bankruptcies in 2023. However, this cull has also allowed startups with robust business models to weather the storm. Moving forward, a natural selection process will occur, with the fittest fintech startups thriving and those with questionable business models fading away.

This phase is akin to the Indian cultural belief in a cycle of creation, maintenance, and destruction. We are currently in the destruction phase, resulting in the culling of several fintechs. On the positive side, we anticipate a rebirth of fintech with a focus on new first principles, shaping how businesses are engineered or built in 2024.

Matthias Kröner: In our comprehensive exploration of the global political and economic landscape, which profoundly shapes our environment, it becomes vividly apparent that the next five years hold the promise of both desired and unintended transformations. As we delve into the external forces and overarching mega-trends currently in play, we encounter profound and far-reaching influences. The persistent climate crisis, an enduring concern, carries profound implications for the fintech sector, particularly within the realm of payment systems. Concurrently, the relentless march of digital transformation is further amplified by the omnipresence of artificial intelligence. Geopolitical complexities, occasionally reminiscent of the Cold War era, present unprecedented challenges, particularly as we approach the pivotal year of 2024, marked by elections in over 70 states, including populous nations such as India, the US, and Indonesia. These geopolitical shifts have the potential to reverberate through the very fabric of our near-term development.

Maintaining a vigilant gaze upon this multifaceted landscape is essential, for it contributes significantly to the overarching narrative. The convergence of political events and financial regulation may signify the conclusion of what some have colloquially termed the 'golden era' in banking. Populist elements within governments may advocate for deglobalisation and protectionism, impacting all cross-border concepts and multinational operations, including crucial areas like cross-border data usage. Equally paramount is the evaluation of debt rates, such as corporate loans in China, consumer debt, and the United States' national debt.

Much of this is beyond the control of fintech ecosystem stakeholders. Nevertheless, these dynamic factors will indelibly shape our future landscape. Navigating these multifaceted challenges necessitates a delicate equilibrium, one that harnesses the potential of cutting-edge technologies like quantum computing, artificial intelligence, the development of digital currencies, tokenized assets, or stablecoins, while prudently mitigating global risks and guarding against the potential misuse of these transformative technologies.

The juncture of all these elements beckons us to explore how technology can be leveraged to address daunting challenges, including climate catastrophes and the refugee crisis. It invites us to envision fintech as a potent force for good, capable of bolstering nations and communities, and as a means to counter the rise of political populism. This intersection underscores the vital importance of responsible innovation and conscientious application of technology as we embark on this transformative journey.

Pat Patel: Regarding cryptocurrencies, I believe we might witness the end of the crypto winter early next year. Digital assets could regain the potential they showed a few years ago, before the onset of the winter. This resurgence is certainly worth considering. Shifting gears to the broader fintech landscape, particularly startups, it seems we're approaching the end of a cull period. The fintech winter, largely influenced by a drying up of capital, might see some green shoots as we move forward. ➔

Now, a concept I hinted at earlier is the idea of public digital infrastructure. About five to six years ago, India pioneered the India stack - a comprehensive framework comprising an identity layer, a real-time and interoperable payments layer, a data exchange for financial and non-financial information, and a consent architecture framework. These pillars are fundamental to any thriving digital economy. Looking ahead to 2024, I anticipate more countries exploring the development of their own versions of this stack within their markets. While India and Singapore have already embraced similar concepts, several nations lack a national public digital infrastructure. The coming year may witness significant movement in this space as more countries recognise its importance and seek to establish their own digital frameworks.

What factors and aspects do you believe are driving the trends you mentioned?

Matthias Kröner: Reflecting on this question, I've touched upon several mega trends that align with Pat's observations.
Regarding the end of the crypto winter, I must say, that we've observed this resurgence within our startup Tradelite Solutions. The Web3 community, particularly in the realm of crypto and tokenized assets, is regaining momentum. Two years ago, there was a frenzied investment atmosphere where anything and everything crypto-related received attention, regardless of purpose or impact. Subsequently, in 2023, a realisation set in - the lack of purpose and sustainable business models became apparent. However, we are currently witnessing a renewed interest, largely fuelled by Bitcoin's prominence and by granting the allowance for Bitcoin ETFs. Regulation, as always, plays a pivotal role, acting as both a market maker and closer in the financial services arena.

Another driving factor is the urgency imposed by the climate catastrophe. The need for industries, including financial services and fintech, to take proactive measures is evident, especially when political will and effective action from global forums like COP28 seem insufficient. Industries and consumers are compelled to drive change when political entities fall short.

Moreover, as we approach a politically charged year with geopolitical tensions, disinformation and cybercrime become a prominent concern. States engaging in disinformation and cybercrime activities during periods of heightened geopolitical controversies contribute to the overarching factors influencing trends.

Lastly, technological developments present both opportunities and risks. While we operate in an era of unparalleled technical capabilities, the same promise is accompanied by global risks that necessitate stabilisation efforts. Balancing on this edge requires careful consideration of these overarching environmental factors, laying the groundwork for our further discussions on specific sub-chapters within fintech and payments.

In essence, regulation, climate catastrophe, geopolitical tensions, disinformation, cybercrime, and technological advancements collectively shape the landscape we navigate. These trends set the stage for a nuanced exploration of fintech and its subcategories.

Pat Patel: I would like to emphasise a couple of additional points. In 2024, as we address the ongoing issues, it's crucial to note that approximately 1.4 billion people remain unbanked. Equally concerning is the challenge of underbanked individuals who possess financial products that are not entirely suitable for their needs. This nuanced perspective brings to light the complexity of financial inclusion issues, extending beyond mere unbanked statistics.

Moreover, a substantial number of individuals face high debt levels, rendering their existing financial products practically unusable. This creates significant pinch points globally, contributing to the urgency in addressing these challenges. The pressing need to cater to the financial needs of the unbanked and underbanked populations serves as a fundamental driving force for change.

Another noteworthy factor is the ongoing shift towards Web3. Much like the transition from Web2 in the late 2000s, we anticipate a gradual movement towards Web3. Currently navigating a Web2.5 landscape, the momentum towards Web3 is gaining traction, especially with the anticipated end of crypto winters in the coming year. This shift marks a secular trend, shaping the future trajectory of technology and finance. ➔

Lastly, the active role taken by regulators is a pivotal factor influencing industry dynamics. Regulators are becoming increasingly vocal in their engagements with the industry, contributing both positive and negative perspectives. The synergy between policy, finance, and technology is a driving force behind meaningful changes. Acknowledging the impact of policy decisions on the financial and technological realms is crucial, and this intersection serves as a catalyst for substantial transformations.

In essence, the factors driving trends encompass not only technological and financial considerations but also the imperative to address global financial inclusion challenges and the evolving landscape of regulatory involvement. These multifaceted elements collectively shape the narrative of fintech and its trajectory into 2024.

Matthias Kröner: Certainly, Pat. Your insights are valuable, especially when considering opportunities and use cases within fintech. Particularly, addressing the unbanked is crucial, and the numbers, especially in Southeast Asia and Africa, highlight the severity of the issue. Latin America, with around 50% lacking access to fair financial support, stands out as an opportunity. Exploring how fintech can support local societies to enhance stability, and in turn, contribute to mitigating challenges related to the refugee crisis is a significant avenue.

The refugee topic, while potentially less prominent in Asia, is a pressing challenge in Europe. It places substantial pressure on societies and democracies, leading to increased support for populist and right-wing parties. Finding fintech solutions to this complex issue could be transformative and gain widespread support.

Additionally, your emphasis on financial education as a broader opportunity is noteworthy. Equipping people with the knowledge to handle money, regardless of the amount, is essential for individual empowerment and economic well-being.

In summary, your perspective highlights the potential for fintech to make a positive impact globally, addressing critical issues and contributing to societal and economic development.

Let's dive a bit deeper into the impacts on different stakeholders.

Matthias Kröner: I've observed a positive trend where regulators are increasingly open and proactive. It's not merely about imposing additional regulations but engaging in open dialogues and knowledge exchange. This is evident in organisations like Elevandi, where there are key discussions between regulatory bodies and industry representatives. Regulators openly acknowledge the overwhelming nature of these developments and seek collaborative solutions. It's not just about reacting to more regulations but adapting their organisational structure to effectively cope with these advancements.

Moving beyond regulation, the overall technological landscape is creating a widening gap between organisations ready to harness these advancements and those falling behind, often due to budget constraints. This disparity poses a real risk, leading to what's commonly referred to as a 'tech death wave'. Organisations that fail to embrace technological evolution may find themselves obsolete. Moreover, this challenge extends beyond the positive aspects of technology, such as AI enhancing customer services, to the negative facets like cybersecurity threats. The readiness of financial institutions to combat cybercrime becomes crucial.

Pat mentioned the shakeout within the fintech industry, which might be digestible in the short term. However, in the long run, it may consolidate power into the hands of a few global tech giants. This consolidation raises concerns about monopolies and the ability to regulate such entities effectively. The challenge is exemplified by big social media companies disregarding European regulations on issues like hate speech. This trend could pose challenges in regulating their financial activities. ➔

Looking at the startup environment, it becomes imperative for nations to encourage and support entrepreneurial generations. In Europe, particularly in Germany, there's a noticeable lag in financial support for startups compared to other nations. Encouraging startup initiatives is crucial for fostering innovation and economic growth. So, as we navigate these trends, there are multifaceted impacts on regulatory bodies, businesses, and the broader landscape, each presenting its unique set of challenges and opportunities.

Pat Patel: Please let me add some thoughts to the discussion. Businesses across various scales, from micro-SMEs to SMEs and the intermediate space between ME and corporate segments, have faced considerable challenges since the onset of COVID-19. The winter season has cast a chill over digital assets and fintech, and high-profile banks like Credit Suisse and Silicon Valley Bank have encountered struggles in 2023. The need to support this business community is pressing, and the rearchitecting of financial services infrastructure will play a pivotal role in aiding the next wave of organisations.

The overarching goal of these trends is to establish an equitable, fairer, transparent, and cost-effective financial services system. This is poised to have a significant impact on businesses. Governments worldwide share concerns about the difficulties faced by their businesses, particularly in the SME sector and micro-SMEs. The trends discussed hold the potential for substantial changes that will contribute to addressing these challenges. On the consumer side, the focus remains on creating a fairer financial world. Tackling issues like the 1.4 billion unbanked individuals globally and addressing challenges faced by the underbanked is crucial.

An alarming statistic points to around 110 million displaced individuals and 35 million refugees globally in 2023. By re-architecting the financial services system and leveraging technologies, especially in digital identity, these communities can be better supported. Digital identity offers a borderless existence, ensuring credentials can travel with individuals, unaffected by crises or changes in location.

The impact on regulatory bodies is an important aspect we haven't delved deeply into. Policymakers and regulators are becoming more active in discussions and project design to address challenges. However, the responsibility tied to the use of technology is gaining prominence. Policymakers, regulators, and governments are now giving serious thought to the responsible use of technology. This aligns with recent developments like the European Union's AI Act, emphasising the need for responsible technology application. When considering the benefits for regulators, consumers, and businesses, the key takeaway is an improved financial system that fosters prosperity, equity, and economic stability. The existing challenge lies in the deep-seated legacy factors, including infrastructure, personnel, and processes. Embracing new technologies holds the promise of initiating positive changes in these entrenched systems.

Could you please elaborate on other opportunities and use cases associated with the trends mentioned earlier?

Matthias Kröner: It's essential to note that when we initiated Fidor Bank around 15 years ago, during the financial crisis of 2008-2010, our objective was to create better banking. We aimed for transparency, inclusivity, and the avoidance of conflicts of interest that plagued the financial landscape at the time. Back then, terms like fintech weren't as common, and the movement was about creating ethical, value-centric financial services. Today, however, the focus seems to have shifted towards commercialisation and monetisation, perhaps overshadowing the initial purpose.

Financial education and inclusion involve a market of 1.5 billion people, mainly in emerging markets. While the tickets may be small, the fintech industry is uniquely positioned to serve this vast market. Financial education is essential for societal stability, just like health and nutrition. It stands as one of the most significant use cases to consider.

Pat Patel: As Matthias mentioned, we've touched on some aspects already. The 1.4 billion underbanked or unbanked individuals represent a significant opportunity. Addressing the refugee challenge is not just an opportunity but also a responsibility for fintech to tackle. Another potential lies in personalising services through advancements in AI and generative AI. This allows for the creation of more consumer-centric financial products, offering intuitiveness precisely when needed, aligning with the concept of embedded finance. Enhancing the last-mile service is interconnected with this strategy. Furthermore, expanding into Asia presents vast opportunities.→

Expanding on Asia's growth potential, Southeast Asia stands out with a rising middle class and high digital penetration through mobile phones. This provides an excellent opportunity to offer financial products across the marketplace. India, having a robust year, is expected to continue its growth with over a billion people and ongoing work. Japan and China are also gradually opening up. Despite challenges due to deglobalisation, there's an emerging opportunity for organisations to build connections from Europe, Africa, or the US into Asia. Though nascent, we anticipate a reversal of the deglobalisation trend, with regions and clusters of countries coming together in the coming year.

Now, for our final question, despite covering a substantial amount, I'd like to explore any additional insights you may have regarding expected outcomes and developments in payments and fintech over the next five years.

Matthias Kröner: Certainly. I'd like to emphasise the uniqueness of the current era, marked by unprecedented technological capabilities, geopolitical complexities, and the escalating climate crisis. This convergence, particularly the impact of the climate catastrophe, introduces a high degree of unpredictability. Looking ahead, the next five years appear challenging to predict, given the sustained uncertainty. Success in this landscape hinges on organisations embodying resilience, stability, and a dual commitment to flexibility and agility. While it is acknowledged that businesses should not exploit negative developments, addressing the challenges presented by geopolitical issues and the climate crisis is both imperative and a moral duty. Companies actively contributing to overcoming these challenges will find their place in this VUCA world. It's essential to be prepared and proactive, as ignoring the reality of these issues is not a viable strategy and may lead to adverse consequences. Therefore, my vision for the next five years centres around the mega-trends of agility, flexibility, and resilience.

Pat Patel: Looking ahead over the next five years, I foresee a golden age for fintech, marked by a return to first business principles, emphasising profitability over unchecked growth. This shift mirrors trends observed in the broader technology sector. In terms of market dominance, I anticipate Asia emerging as the leading Fintech market by revenues in 2030. The growth trajectories, however, will vary, with Latin America, and Africa experiencing the highest rates, albeit from smaller bases compared to Asia, the US, and Europe. While not traditionally considered glamorous, risk management will play a pivotal role in the coming years, redefining how organisations approach and utilise frameworks to mitigate risks.

Tokenization of assets is expected to gain momentum, especially in the banking sector, with both fintechs and government projects increasingly exploring this avenue. The shift towards Web3 is anticipated to materialise, with the concept evolving beyond a singular definition, incorporating elements of cryptocurrency and artificial intelligence. As we move closer to this Web3 world, the combination of AI and decentralised networks will likely define its essence. Another notable development is the growing importance of digital public infrastructure, critical for powering digital economies. Regions such as Asia, Africa, and parts of Latin America are anticipated to make significant strides in this direction, influencing more traditional markets like Europe and the US to reevaluate their infrastructure strategies. This encapsulates my vision for the fintech landscape over the next five years.

The Digital Fifth

The Key Trends Shaping India's Payments and Lending Landscape in 2024

Sameer Singh Jaini, with 26 years in BFSI, spearheads digital transformation as The Digital Fifth's CEO. He has a rich track record of digital initiatives at DCB, Kotak Mahindra, and Citibank, and is a pioneer in the Banking and Fintech space.

Sameer Singh Jaini ▪ *Founder & CEO* ▪ The Digital Fifth

Shashank Shekhar, with over 20 years in tech, governance, and digital banking, has led infrastructure and Open Banking strategies, notably at DCB Bank. He's recognised for an award-winning Omni Channel Framework and excels in security and IT governance.

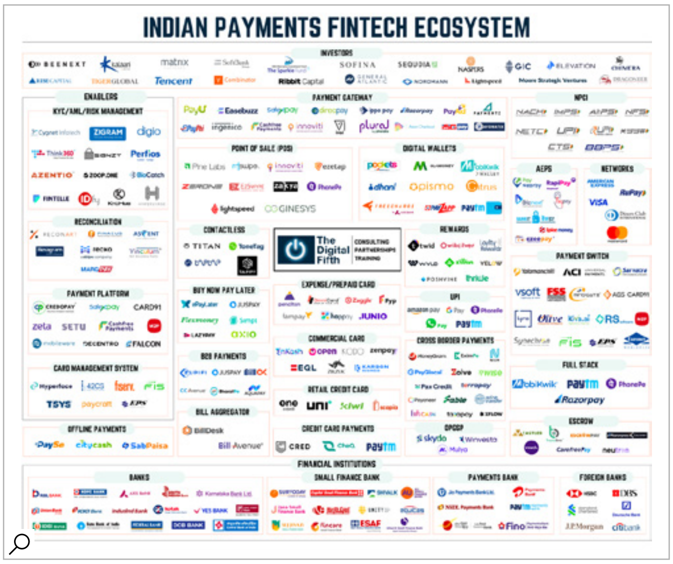
Shashank Shekhar ▪ *Head of Consulting* ▪ The Digital Fifth

Introduction

The last decade has witnessed a revolution in India, with digital payments like UPI redefining transactional convenience and security, a vital step towards a cashless economy. Additionally, the rise of lending fintechs has opened access to finance, targeting previously underserved segments. The emergence of neobanking and BaaS platforms have also been crucial, enabling traditional banks and new-age financial service providers to integrate and offer a wide range of services. This article explores future trends and their potential impacts on India's payments and lending ecosystem.

Future outlook: payments

The payments sector in India has undergone significant change, with UPI transactions in 2023 reaching 117.6 billion, valued at INR 183 trillion (Source: National Payments Corporation of India). National Payments Corporation of India (NPCI) has also been instrumental in the launch of new payment innovations such as AEPS and UPI123 for offline payments. While consumer payments are expected to continue growing, the industry is increasingly focusing on B2B payments and innovation in cross-border payments. We foresee these trends driving the Indian payments ecosystem forward. →



B2B Payments to be streamlined through innovation from existing and new players

The growing number of MSMEs in India requires a more streamlined approach to B2B payments. There is a significant opportunity for the development of enterprise-grade technology stacks that can integrate B2B payment processes with business systems, simplifying payouts, collections, and cash flow management. This consolidation is expected to reduce complexities and increase efficiency in the B2B sector.

Cross-border payment facilitators will gain traction through innovation and API-led integrations

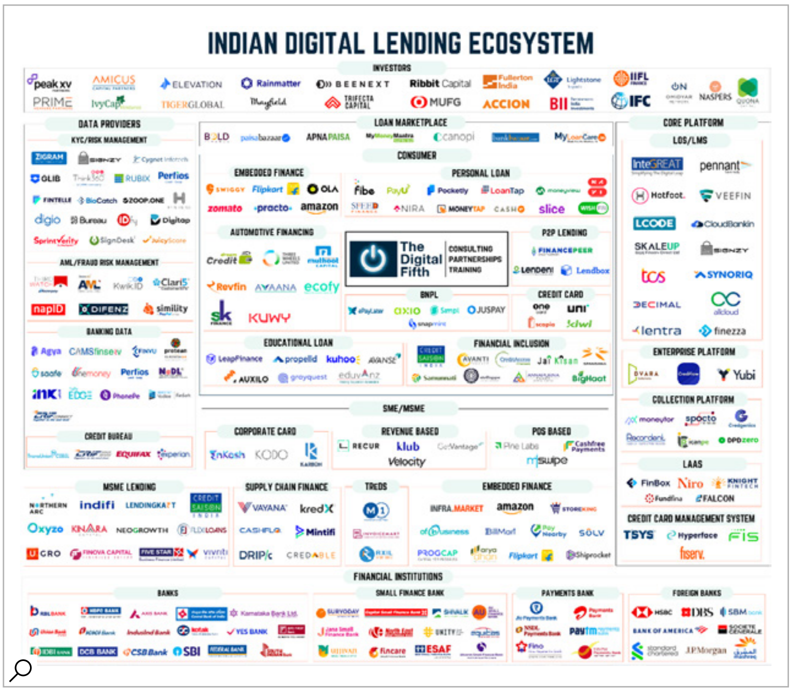
With the rise in international trade, robust cross-border payment solutions are becoming increasingly necessary. Historically, complex regulations and financial risks have limited the growth of these services. API-led payment facilitators will emerge to improve risk management, cost reduction, and faster turnaround times for cross-border payments. These solutions are set to speed up cross-border payments by simplifying international complexities and enhancing the efficiency of global trade

Payments-as-a-Service (PaaS) platforms will gain traction with value-added services

Efficient full-stack PaaS platforms are gaining traction in India for their easy deployment and embedded payments. These platforms now support multiple currencies to facilitate global trade and feature a robust API ecosystem for seamless integration with various financial services, ensuring interoperability. As the ecosystem evolves, these platforms are integrating reconciliation services with rule-based analytics and enhancing security with AI and ML for fraud detection. Expected to grow domestically, these platforms will also look at expansion in the MENA and SEA regions.

Future outlook: lending

There has been a significant increase in loans disbursed through digital channels in the past decade, especially unsecured loans, streamlined through Digital Public Infrastructure. However, this streamlining has been limited to unsecured consumer credit. Moving forward, we expect a shift towards similar experiences in secured lending and MSME credit. Lending-as-a-service (LaaS) providers will play a key role by providing specialised stacks offering origination, management, underwriting, co-lending, and securitisation services as tailor-made solutions. →



Secured Lending to be digitised through tech-driven solutions

Looking into 2024 and beyond, lenders are working towards the digitisation of secured lending, which remains largely manual. Some startups are leading this transformation by developing the necessary digital infrastructure, while established lenders are turning to tech-driven solutions to transform this traditionally manual and expensive process. The digitisation of secured lending is expected to accelerate, driven by innovations such as digitisation of land records and AI & smart contracts and risk assessment for quicker processing.

The surge in demand for MSME lending will be fulfilled through completely digital channels

To meet the increasing demand for credit, the MSME lending landscape in India is transforming. Digital solutions are expected to streamline the process and enhance access to credit by leveraging data from GST filings, e-invoicing, and Account Aggregator networks, to propel credit growth. Digital channels are anticipated to replicate the success seen in consumer lending, providing MSMEs with innovative lending options to reduce manual interventions and operating costs. Additionally, the integration with the Open Network for Digital Commerce (ONDC) is expected to boost opportunities for small businesses, and amplify e-commerce financing.

Segment-specific use cases will be driven by full-stack Lending-as-a-service (LaaS) providers

LaaS providers are gaining traction in the market due to their core offerings of faster deployment, increased adaptability, and plug-and-play solutions. These LaaS providers are leveraging the latest technology to provide end-to-end solutions from origination to collections. As new use cases of embedded lending emerge, new and incumbent LaaS platforms will increasingly develop tailor-made solutions for these segment-specific use cases.

In summary

India's fintech sector is rapidly evolving due to technological advances, regulatory support, and market demand, leading to more accessible, efficient, and secure financial services. The shift towards B2B and cross-border digital payments, along with more digitised lending, promises enhanced services for consumers and businesses alike. This progress is positioning India as a global fintech frontrunner and a benchmark for financial innovation worldwide.

The Digital Fifth

thedigitalfifth.com

The Digital Fifth is Asia's first Fintech and Digital Finance Consulting & Advisory firm, driving change in the fintech landscape as an integral part of the ecosystem. They provide specialised consulting services to the BFSI sector, including digital and Open Banking advisory, startup guidance, technical due diligence, and security and compliance services.

The Evolution of A2A Payments in Europe

In 2024, A2A payments in Europe are evolving with trends like instant payments and digital wallets, notably EPI's wero. Regulatory shifts and demand for real-time transactions promise user-friendly solutions in the next five years. A2A payments aim to overcome existing inefficiencies, offering secure, transparent transactions and direct integration with bank accounts for enhanced efficiency. The future sees A2A payments as a viable alternative, addressing all payment needs, fostering inclusivity, and transforming the European financial landscape with integrated, user-centric services.

EPI Company

European Payments Initiative (EPI)

Ludovic Francesconi and Fabian Mansfeld from EPI Company discuss the key trends shaping A2A payments in Europe, opportunities, new use cases, and the future outlook.

Ludovic Francesconi is Chief Member and Strategy Officer at EPI Company, in charge of Member relations and development, as well as corporate strategy. Previously, he was Head of Marketing and Innovation at Cartes Bancaires CB, the leading domestic payment scheme in Europe, in charge of product and innovation.

Ludovic Francesconi ▪ *Chief Member and Strategy Officer* ▪ EPI Company

Fabian Mansfeld is a member of the leadership team at EPI Company where he holds responsibilities for developing the acceptance market strategy, managing partnerships and pricing strategies. Previously, he served as Managing Director in the Cash Management Strategy Office at Deutsche Bank. Subsequently, he was seconded directly into EPI to provide support in product development, ecommerce, and market positioning.

Fabian Mansfeld ▪ *Chief Acceptance Market Officer* ▪ EPI Company

What are the current key trends shaping A2A payments in Europe, and how do these trends present opportunities for businesses and consumers?

Ludovic Francesconi: I believe that the year 2024 will likely become a transformative phase in A2A payments in Europe, predominantly influenced by two significant trends: instant payments and wallets. This phase would obviously include the coming launch of EPI's digital wallet solution, wero. The evolution of these trends is expected to be further catalysed by emerging regulations like the instant payment regulation and PSD3, fostering a dynamic Open Banking and Open Finance landscape. A main promise for consumers and merchants is the enablement of new features, enhancing and enriching the commerce experience for both businesses and consumers.

> *“The true power of A2A payments lies in its ability to address all payment use cases and offer added-value services and conveniences that existing systems cannot provide.*

The rapid adoption of instant payments across Europe signifies a shift towards more efficient, real-time financial transactions. This shift aligns with the growing demand for immediacy, control, and accessibility in the digital age, in the difficult economic context we know. I believe that the enablement of instant payments in the account-based payments infrastructure paves the way for bank-driven payment methods, delivering maximal security and trust in payment transactions. In the next five years, we expect these trends to lead to more integrated, user-friendly payment solutions across Europe, substantially impacting the financial landscape. ➔

Can you explore the emerging use cases for A2A payments in the European landscape, with a specific focus on unmet payment needs in both the C2B and B2B sectors? (by identifying features currently lacking in the existing A2A and card payment landscapes)

Fabian Mansfeld: I think the current A2A payment landscape in Europe is characterised not by a lack of use cases but by the need to overcome inefficiencies and limitations of existing payment infrastructures. These infrastructures, some dating back over several decades, have not kept pace with the digital transformation, as they were built for a totally different commerce reality.

We see that across all payment scenarios, the emphasis is shifting towards leveraging digital payment infrastructure more effectively, bypassing intermediate steps. This approach not only enhances efficiency but also augments the security and transparency of transactions. It will also lead to the direct integration of additional services with bank accounts, making them more independent and versatile. To realise this, A2A payments must match the convenience and functionality of existing payment methods and then extend beyond them by linking additional services directly to the consumers' bank accounts. This evolution will address unmet needs by providing seamless, secure, and transparent financial transactions.

Looking forward, we foresee a landscape where A2A payments become as ubiquitous and even more versatile as traditional methods, fostering a more inclusive and efficient financial ecosystem in Europe.

Looking towards the future, what is the outlook for A2A payments in Europe, and what major shifts or innovations do you anticipate in this space?

Ludovic Francesconi: The future of A2A payments in Europe appears promising, poised for significant growth in the coming years. The focus, I think, will likely be on developing solutions that not only match the capabilities of current payment systems but also offer enhanced services linked to consumers' bank accounts. In the near term, A2A payments are set to emerge as a viable alternative to existing digital and card payment methods. However, they are unlikely to render these traditional systems obsolete due to the established usage pattern in the current payment landscape and long-lasting consumer habits. The real potential of A2A lies in its ability to address all payment use cases and offer added-value services and conveniences that existing systems cannot provide. It is also worth highlighting that the digitisation of assets also goes way beyond monetary assets. Bank accounts could be obvious custody for other types of digital assets, and a bank-driven digital wallet solution could be the way to interact with these assets securely.

Also, the growth trajectory for A2A payments will likely involve a proliferation of diverse solutions catering to specific needs across B2C and B2B sectors. However, as with any rapidly evolving market, this expansion will eventually lead to consolidation, reflecting the inherent scale-based nature of the payment industry. We anticipate that A2A payments and wero will significantly transform the European payments landscape, offering more integrated, user-centric financial services and strengthening the overall efficiency and security of the financial systems.

epi European Payments Initiative

epicompany.eu

The European Payments Initiative (EPI) is an initiative backed by 16 European banks and merchant service providers to progressively build a payment solution tailored for Europe. EPI leverages the instant account-to-account payments infrastructure available in Europe to improve efficiency and remove intermediaries in the payment flow. It aims at enabling next-generation payments for consumers and merchants in Europe across all types of retail transactions via a wallet. EPI will initially support person-to-person (P2P) and person-to-professional (P2Pro) payments, followed by online and mobile shopping payments and then point-of-sale payments while combining them with attractive value-added services in the future.

Cross-Border Payments: Unravelling Trends in B2B, B2C, and C2B Transactions

Anyone who sends money internationally will know there can be significant issues with cross-border payments. Complex and fragmented correspondent banking arrangements result in cross-border payments being slow and expensive. Consequently, central banks are wondering whether CBDC systems, designed from the ground up, have the potential to provide a better solution.

Steve Pannifer, Managing Director, Consult Hyperion

Mesh Payments

Mesh Payments' co-founder and CEO, Oded Zehavi, discusses their new Travel Management solution and the changing business travel landscape in 2024.

Oded Zehavi is the co-founder and CEO of the spend and travel management platform Mesh Payments. Previously, Oded served as Payoneer's Chief Revenue Officer and led the launch of PayPal Middle East and Africa. He has extensive experience in leadership roles at various technology, banking, and software companies, and serves as a board member or advisor to several fintech companies.

Oded Zehavi ▪ *Co-Founder & CEO* ▪ Mesh Payments

Multinational companies often grapple with complex travel and expense management issues in today's global market. Can you elaborate on their key challenge?

The primary hurdle in effectively managing travel and expenses is achieving comprehensive visibility and control. This challenge stems from a need for integrated systems to monitor employee spending across various regions and departments. Traditional methods, like manual expense reporting, are fraught with inefficiencies – lost receipts, data entry errors, and the cumbersome process of collecting reports. Implementing an automated, unified travel and expense management system is essential to counter these issues. A modern system with integrated virtual and physical corporate cards provides real-time insight into expenses.

> *“Mesh gives companies the flexibility to work with multiple TMCs, the combination of both off and online booking all with integrated corporate cards and expense management automation.*

In the dynamic landscape of business travel, how are companies balancing effective cost control and meeting the increasing demands and expectations of their business travellers?

Recent research, including a travel **study** by Mesh Payments, reveals a significant disconnect between corporate travel and expense management. Notably, 78% of employees find the process of expense reporting both confusing and time-consuming.

Companies face multifaceted challenges in adapting their travel policies for regional, and the complexities of international travel, particularly in a decentralised work environment. To address these issues, many companies are shifting towards a traveller-centric approach. This strategy focuses on offering more flexibility and choices to business travellers, leveraging data analytics for more efficient spending, and forging personalised agreements with travel providers. These measures aim to enhance the travel experience for employees and ensure rigorous cost management.

Last summer, you launched Mesh's Travel Management Solution at a big business travel industry show, Global Business Travel Association (GBTA)? Why does the world need another T&E solution?

The pandemic significantly accelerated the adoption of digital solutions in travel and expense management. Companies are more distributed across geographies than ever before, focusing more on flexible travel policies, real-time expense tracking, and ensuring employee safety and well-being during travel. ➔

At the same time, few companies and travel managers would say that any travel solution or company works seamlessly across every region or country; there are just too many local needs and nuances. So, we stood back and saw we could solve this holistically — for the first time, giving companies the flexibility to work with multiple TMCs and a combination of both off and online booking, all with the unmatched convenience and visibility of integrated corporate cards and expense management automation. Those were the driving factors behind the launch of Mesh Travel Management.

Do you believe that the winning combination lies in TMC flexibility, integrated cards, and expense automation?

Yes, it is an irresistible combination and one that we uniquely offer globally.

Looking towards the future, how do you anticipate the travel and expense (T&E) management landscape evolving for companies? What technological innovations and strategic shifts do you foresee playing a pivotal role in this evolution?

The future of T&E management is likely to be shaped by a holistic, integrated approach addressing the entire spectrum of T&E processes. Companies will focus on streamlining everything from approval workflows and policy adherence to booking, reporting, and data analysis. The key to resolving many existing challenges lies in consolidating these facets into a centralised, adaptable T&E platform that integrates multiple partners and channels. This shift promises to eliminate disjointed processes, reduce data silos, alleviate employee frustration, and minimise manual labour.

How does generative AI fit into your travel and expense management vision?

Artificial intelligence and machine learning are significant in automating expense reporting and policy compliance. There's also a growing emphasis on integrating travel booking and expense management systems for a seamless user experience. Of course, we've been investing in AI and automation since the get-go to help streamline the user experience. Still, finance is all about accuracy, so generative AI plays less of a role in finance operations. Why? Because financial operations involve complex regulatory and compliance requirements, any automated decisions need to be transparent and explainable. Generative AI, in its current form, often operates as a 'black box,' making it challenging to understand how certain conclusions or recommendations are reached.

What else do you think will shape business travel in 2024?

The resurgence of in-person meetings and events is driving a solid recovery in business travel. Another trend is the rise of 'super commuting', where employees hired in locations far from their designated offices or those who have moved away from big cities now travel more frequently to their company headquarters, often internationally.

Overall, I see the business travel landscape in 2024 characterised by a blend of recovery, technological advancement (with the flexibility to accommodate not just employees, but guest and contractor travel needs), and a shift toward more sustainable and flexible travel practices.

The way companies travel will never be the same. It is onward and upward from here.

Consult Hyperion

Retail CBDC Trends

Steve is an esteemed digital identity expert, advising banks, governments, and tech firms on governance, architecture, and implementation. He's contributed to various digital identity initiatives worldwide and co-authored guides for the DIACC and the EPA. Steve is advising Central Banks on various aspects of CBDC including governance, privacy and technology.

Steve Pannifer ▪ *Managing Director* ▪ Consult Hyperion

Central banks around the world have spent several years exploring retail CBDC. Whilst some countries have moved quickly into pilots, the majority are taking their time, carefully developing their thinking and plans. This is completely understandable. The introduction of a digital form of cash has the potential to be disruptive to the banking sector and so any central bank will want to be sure that any disruption – intended or otherwise – is well managed. The ECB has recently moved into what it describes as a **'preparation phase'**. Over the next two years, it will be finalising the digital euro rulebook, selecting providers that could develop a digital euro platform and infrastructure, continuing with its experimentation, and engaging with the public. This does not mean that a digital euro is inevitable. In two years the governing council will then need to decide whether to move to the 'next stages of preparation'.

As this work continues during 2024, we expect three particular areas to continue to be important:

- Support for offline,
- Programmability, and
- Support for cross border.

As we explain below these are areas where a CBDC can differentiate itself from the payment methods we have today.

Offline payments

Research conducted by the **BIS Innovation Hub Nordic Centre** suggests that around half of central banks believe it is essential for CBDC systems to support offline payments, with the other half viewing it as advantageous.

Reasons cited in support of offline payments include:

- **Resilience**, which is a clear need because, like physical cash, CBDC will need to work even when other services fail.
- **Inclusion**, which is a particular concern in locations and contexts where people may not have access to the internet.
- **Privacy**, allowing people to use money without the fear of surveillance. There will of course be limitations here – CBDCs also need to be resistant to exploitation for nefarious purposes.

A less cited reason but one that we believe could outweigh them all is scalability and performance. Depending on the design, there is a real risk of CBDC ledgers becoming a bottleneck, which an offline capability should be able to alleviate.

BIS also researched the technologies that could be used to deliver offline capabilities. Whilst including offline as part of the design of a CBDC system may increase the complexity of the system, it does not necessarily mean that the total cost of ownership will be higher. Having an offline fallback mechanism may reduce the operational demands on the CBDC ledger, especially during peaks, lowering the cost and increasing the availability of the CBDC overall. ➔

Programmability

Many payments today are automated. For example, batch payment processing, standing orders, and direct debits all allow payments to be performed automatically without human intervention. These payments are not however intelligent or dynamic – they simply execute according to how they are configured in the banking or payment systems. Cryptocurrencies introduced the idea of smart contracts – 'programmed' business logic that can either be executed when a payment transaction is performed or can potentially control when a payment occurs based on pre-defined conditions. Many future use cases – such as in DeFi and IoT payments – will require intelligent payments, so it is hardly surprising that programmability is one of the features being considered by central banks, given that like physical money it should be possible to use CBDC anywhere. There are still some big questions to be answered on programmability – including technically how it will work, who will be able to program the CBDC and how will programmability be governed to ensure the capability is not misused. In the summer, **MIT published** a framework for programmability in digital currency. This helpfully distils the differing views on programmability and explores these questions.

Cross-border payments

Anyone who sends money internationally will know there can be significant issues with cross-border payments. Complex and fragmented correspondent banking arrangements result in cross-border payments being slow and expensive. Consequently central banks are wondering whether CBDC systems, designed from the ground up, have the potential to provide a better solution.

Whilst central banks are collaborating extensively on the topic of CBDC, ultimately each central bank will be responsible for establishing a CBDC system meeting its local requirements. Through collaboration patterns are emerging, such as the widely recognised two-tier model. Over time, there may be technical standards that central banks can align with – as a minimum, you can expect central banks to try to align with ISO 20022 messaging. These will help to ensure interoperability but will that be enough to enable cross-border CBDC payments?

Several experiments, such as **the Icebreaker** and **mBridge**, have already been conducted exploring how cross-border CBDC payments may be realised. These have looked at ways of shortening the long value chains that can exist in cross-border payments today. That will certainly help but this only begins to address the full range of potential issues with cross-border payments including governance, compliance, funding, foreign exchange, and so on.

Everything else

Designing a CBDC involves analysis of legal, commercial, and technical factors. It needs to be done in collaboration with the government, business, and society. There are complex issues such as privacy that need to be worked through. And all that in a fast-moving landscape with parallel initiatives such as Open Banking and open finance disrupting the payments landscape. Central banks are playing a long game. They are concerned with creating the conditions for economies to flourish. Determining if, how, and when CBDC can help with that is something they will take their time over.

The Paypers

Navigating the Evolving Landscape of Cross-Border Payments: Top Four Trends to Watch in 2024

Mirela Ciobanu is Lead Editor at The Paypers, specialising in the Banking and Fintech domain. With a keen eye for industry trends, she is constantly on the lookout for the latest developments in digital assets, regtech, payment innovation, and fraud prevention. Mirela is particularly passionate about crypto, blockchain, DeFi, and fincrime investigations, and is a strong advocate for online data privacy and protection. As a skilled writer, Mirela strives to deliver accurate and informative insights to her readers, always in pursuit of the most compelling version of the truth. Connect with Mirela on **LinkedIn** or reach out via email at mirelac@thepaypers.com.

Mirela Ciobanu ▪ *Lead Editor* ▪ The Paypers

As the calendar turns, I make it a ritual to reflect on the past year, extracting valuable insights to inform my approach for the new year. Just like individuals usually set resolutions, businesses, especially those operating in the realm of cross-border payments, scrutinise the trends of the previous year and the ones that are expected to further impact the industry in the year ahead.

The globalisation of trade, capital, and migration flows have influenced a notable increase in cross-border payments for the last decades. **Global payments are set to reach USD 290 trillion by 2030** from the current USD 190 trillion in 2023. Despite this remarkable expansion, cross-border payments continue to be costly, slow, and face insufficient transparency and accessibility. Corporate fees for international payments average around 1.5%, while remittances **can incur fees as high as 6.3%**, with the time it takes for these payments to reach their recipients extending to several days. Other challenges in cross-border payments encompass compliance intricacies, varying international regulations, and diverse AML requirements.

In October 2020, G20 Finance Ministers and Central Bank Governors endorsed a Roadmap for Enhancing Cross-Border Payments. The G20-led initiative is supported by the World Bank, the International Monetary Fund (IMF), and about 40 central banks.

G20 nations are collaboratively addressing cross-border payment issues. The G20 (As outlined in the **G20 Roadmap for Enhancing Cross-border Payments**, their efforts aim to achieve goals such as shortening transaction chains, reducing overall costs, and enhancing transparency and speed in payments. The focus of G20 nations' actions includes:

1. **Payment systems interoperability and extension**: This involves improving payment system interoperability and interlinking, extending the operating hours of Real-Time Gross Settlement (RTGS) systems, and revising payment system access policies.
2. **Legal, regulatory, and supervisory frameworks**: G20 nations aim to promote an efficient legal, regulatory, and supervisory environment for cross-border payments while ensuring safety, efficiency, and integrity.
3. **Data exchange and message standardisation**: Efforts are directed towards facilitating cross-border data exchange and increasing the use of standardised message formats for cross-border payments. Enhancing and harmonising the data carried in most cross-border payment messages can support increased straight-through processing, automated reconciliation, and more efficient Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) checks. →

A big trend emerging around cross-border payments is **real-time payments**. In 2023, over 70 countries endorsed real-time payments and **according to ACI Worldwide**, there were 195 billion transactions in 2022, marking a remarkable 63% year-on-year growth. **India (UPI)** leads in transaction volume, accounting for 89.5 billion transactions. Other notable initiatives include **PIX** in **Brazil**, **SCT Inst** in the **EU**, **the Fednow** in the **US**, and various real-time payment schemes in China, Thailand, Singapore, and South Korea.

Real-time payments play a rapidly growing role in the payments industry, and by starting to work together, they deliver on the G20 agenda, fostering greater interoperability, common standards and infrastructure across diverse payment systems and networks.

Amidst these advancements, global conflicts emerged, and a notable shift was observed as entities sought to reduce dependency on the dollar and monopolistic payment schemes or structures. With these dynamics in play, we try to anticipate the trajectory of cross-border payments in 2024 by elaborating on four trends to watch.

1. Increased number of initiatives focusing on enabling real-time, interoperable, and cost-effective cross-border payments

Faster cross-border payments are important. **Waiting for funds translates** into less financial control over market volatility (47%) and increased manual processes and reconciliation (40%). For instance, **businesses in APAC report** it takes between five and ten days to receive or send cross-border payments. Other hurdles in cross-border payments involve navigating complex compliance requirements, diverse international regulations, varied AML (Anti-Money Laundering) demands, and a lack of transparency. Additionally, disparities in data formats and standards further complicate the landscape.

The adoption of the ISO20022 international standard is regarded as a pivotal step in addressing some of these challenges. Also **SWIFT is actively addressing these issues**; in 2023, they reported that 89% of transactions processed on their network reached recipient banks within an hour. **Marianne Demarchi, Chief Executive of Swift in Europe, emphasised** the importance of interoperability in SWIFT's efforts to realise the strategy of instant and frictionless payments for everyone. She highlighted its crucial role in aligning with the G20's objectives for cross-border payments.

In Europe, **the ECB and Sveriges Riksbank** are actively investigating potential solutions for facilitating cross-currency instant payments involving the euro and the Swedish krona. Furthermore, the EPC's One-Leg Out Instant Credit Transfer (OCT Inst) scheme, where PSPs in SEPA can process incoming and outgoing international credit transfers through highly automated funds transfer systems available in the Euro Leg and via similar systems in the respective non-Euro Leg countries or jurisdictions, is a positive stride for Europe, foreseeing improved user experiences not only for payers within Europe but globally as well.

In APAC, real-time payments are also growing rapidly. Between 2022 and 2023, central bank governors from Singapore, Indonesia, Malaysia, the Philippines, Thailand, and Vietnam pledged **cross-border interoperability for real-time payment systems**, fostering regional economic recovery. Moreover, with **Singapore's PayNow** system linked to many other RTP systems in APAC via India's **United Payments Interface (UPI)**, Malaysia's **DuitNow**, and Thailand's **PromptPay**, we expect to see a huge increase in cross-border commerce in the APAC region fuelled by real-time payments.

In addition to real-time payments, **QR code payments have emerged as a significant electronic payment method in Southeast Asia**. This has spurred collaborative efforts among countries in the region to facilitate QR code usage for cross-border payments. This initiative lays the groundwork for citizens to engage in cross-border transactions using QR code payments, often with reduced or eliminated fees and more favourable currency conversion rates compared to major credit card companies. →

All six major economies of ASEAN have entered into bilateral agreements or memoranda of understanding (MoUs) to establish QR code payment linkages with other ASEAN Member States. Notable examples include Indonesia and Thailand implementing a QR code payment linkage in 2022, while Singapore established links with Thailand in 2021 and initiated a pilot with Indonesia in 2022. The policies and commitments made by ASEAN member state and regulators serve as a valuable case study for regions aiming to achieve financial integration and cooperation through digital payment initiatives. The global community can draw insights from fostering effective collaboration, ensuring financial services' accessibility for all to promote financial inclusion, and designing scalable and adaptable payment system infrastructure capable of handling increasing transaction volumes and future technological advancements.

The demand for real-time payments is shaping the evolution of cross-border transactions. In 2024, we anticipate a significant push toward faster settlement processes, eliminating the traditional delays associated with cross-border transfers and high costs.

2. More and more fintechs to build payment infrastructure for real-time cross-border payments

Over the past decade, a new wave of fintech companies has emerged to address the limitations of conventional cross-border payment and settlement systems (e.g. card networks, banking networks). Some are pioneering innovations atop existing payment networks (**Rapyd**, **Thunes**, **Terrapay**, **NIUM**, etc.), while others are harnessing cutting-edge technologies like blockchain (**Ripple**, **BVNK**, **Stellar**, **Circle**, etc.) to construct an entirely independent payment infrastructure.

Businesses and people need to move money internationally because they want to do trade cross-borders, travel, remittances or business payouts, or manage corporate treasury flows. Consider a scenario where a customer makes a purchase from an international website. Ideally, the customer prefers to conduct the transaction in their local currency, while the website aims to settle the funds in its own currency.

Similarly, businesses often encounter the need for cross-border payments. This includes making payments to individuals in different countries, like disbursing wages, settling insurance claims, and processing refunds. Also, businesses engage in international transactions with third parties involved in their operations, commonly referred to as invoice payments. These payments encompass various aspects, from commission payouts to sellers on a marketplace to fees for agencies and freelance staff.

By bridging cross-border payments with local wallets and payment methods, payment service providers like **Rapyd**, **Thunes**, **Terrapay**, and **NIUM** enable seamless transactions for merchants, travellers, and the gig economy that are operating in a global environment. For instance, Rapyd enables businesses to access a variety of payment capabilities, including card acquiring, e-wallets, bank transfers, and cash payments. Using its global payments infrastructure, the fintech allows businesses to tap into new worldwide customer bases and accept payments in their preferred methods and currencies.

As we venture into 2024, these providers hold significant potential to simplify cross-border transactions, fostering enhanced interoperability.

Distributed ledger technology (DLT) like blockchains and digital assets like cryptocurrencies, stablecoins, or tokens are an effective alternative to make cross-border payments faster, safer, and cheaper. Blockchain, by eliminating the need for third parties, enables faster and more secure financial transactions. Integrating blockchain into banks could result in nearly instantaneous processing times for consumer transactions. This is a stark contrast to traditional settlement and clearing processes that can take several days, posing risks and incurring costs for banks. Blockchain's ability to expedite fund exchanges between institutions contributes to increased efficiency and security in the financial services landscape. ➔

Companies such as **Ripple** or **Stellar** are using solely distributed ledger technology (DLT) to enable businesses and consumers to conduct global transactions seamlessly. Businesses and banks are using Ripple's payment network RippleNet, which relies on blockchain to transfer funds instantly. RippleNet also provides its clients with liquidity service with the help of cryptocurrency, XPR, that serves as a link between two currencies.

These companies offer diverse capabilities, from enabling payments and helping with treasury management to facilitating digital asset transactions without disrupting treasury operations or constructing private ledgers for issuing stablecoins and central bank digital currencies (CBDCs).

Others like **BVNK** and **Circle** are merging blockchains with traditional payment infrastructure for a faster, safer, and more efficient way to send, spend, and exchange money around the globe. They are part of global settlement networks and thus offer cross-border payments and currency exchange (including fiat to fiat, crypto to fiat, fiat to crypto, and crypto to crypto). For instance, BVNK's customers can accept cryptocurrency from their customers without having to hold it on their balance sheet and embed cryptocurrency and stablecoin solutions into their products and services without needing to become regulated.

Because cross-border payments play a crucial role for international businesses, 2024 will see a surge in solutions and offers that enable merchants, travellers, and the gig economy to transact seamlessly.

3. Central bank digital currencies (CBDCs) to become a game-changer for cross-border payments interoperability

No matter the lingo, digital assets and digital currencies are real and are the future. According to a 2022 BIS survey, **93% of central banks are actively exploring CBDCs**, with projects transitioning from experimental phases to pilot trials.

CBDCs can be broadly classified into **wholesale CBDCs** and **retail CBDCs**. **Wholesale CBDCs** are related to wholesale payments that involve high-value transactions. The coordination of national wholesale CBDCs designs could lead to cross-border payments efficiencies by offering a secure settlement, reducing costly and lengthy intermediation chains throughout the payment process, and eliminating operating hour mismatches by being accessible 24/7. From a geopolitical perspective, the development of **CBDCs could also help reduce the dependency of some global economies on the dollar**. The growing interoperability of national CBDCs is poised to diminish dependence on the USD as an intermediary currency for executing exchanges between different currency pairs.

Retail CBDCs are related to retail payments and encompass low-value transactions conducted between individual users and businesses. **According to BIS**, retail CBDCs could promote **financial inclusion** if this goal is included in the design from the get-go. This means promoting innovation in the two-tiered financial system (eg allowing for novel non-bank payment service providers), offering a robust and low-cost public sector technological basis (with novel interfaces and offline payments), facilitating enrolment and education (via simplified due diligence and electronic KYC) and fostering interoperability (both domestically and across borders).

CBDCs can become a game-changer in cross-border payments. These digital versions of fiat currencies offer several advantages, including real-time settlement, lower transaction costs, and improved transparency. →

4. Compliance and security take centre stage

Cross-border transactions are a prime target for cyber-criminal groups due to their inherent opaqueness and lack of standardisation. The absence of a unified regulatory body, coupled with varying regulations and security policies in each country's banking system, creates vulnerabilities that organised criminals exploit. Fraudulent activities, money laundering, terrorist financing, and cybercrime pose significant risks to businesses and financial institutions involved in cross-border payments. Also, differences in policies and regulatory frameworks across jurisdictions can be a challenge for cross-border payments.

There are efforts to explore how regulations can be harmonised; for instance, the BIS Innovation Hub Singapore Centre is exploring the feasibility of encoding jurisdiction-specific policy and regulatory requirements into a common protocol for cross-border use cases via **Project Mandala**.

Adhering to evolving regulations, especially those related to **anti-money laundering (AML) and know your customer (KYC) procedures**, will be crucial in 2024. Sparked by geopolitics and the ongoing conflicts across the globe (Russia – Ukraine, possibly China – Taiwan), paying attention to **sanctions screening, UBOs, adverse media data, and PEP lists** will become the new norm for businesses operating in a global environment.

To help them in this endeavour, compliance departments will focus both on **the use of technology (Artificial Intelligence (AI) and Machine Learning (ML)) and human expertise**. AI and ML can analyse huge amounts of transactional data in real-time to enhance payment security and compliance.

As businesses expand their global operations, they must stay abreast of the latest regulations and implement robust security measures to protect their customer data/transactions and ensure adherence to regulatory requirements.

As we embark on a new year, the trends shaping cross-border payments reflect a commitment to innovation, security, and regulatory adherence. The convergence of accelerated demand for faster settlements, the rise of technology providers that bridge cross-border payments with local wallets and payment methods, digital currencies (especially CBDCs) exploration, and enhanced security measures signifies a dynamic and forward-looking industry. As 2024 unfolds, the industry will continue to navigate these trends, bringing us closer to a future where cross-border payments are not just transactions but seamless experiences.

Open Finance and Embedded Finance: Revolutionising Financial Services

When it comes to product innovation, lending looks to be one of the most important use cases for Open Banking this year, through giving access to new forms of insights to support application and underwriting processes, as well as becoming part of a bigger alternative data landscape for consumer-permissioned data in lending.

Kieran Hines, Principal Analyst, Celent

Celent

Three Retail Banking Technology Trends to Watch in 2024

Kieran is a Principal Analyst in Celent's Banking practice. His research focuses on the impact of technology-driven change in both the retail and corporate banking sectors, with an emphasis on the role that Open Banking, embedded finance, data and analytics, and cloud technologies have in transforming customer propositions and the long-term value chain in banking. An experienced analyst with close to 20 years in the industry, Kieran works closely with banks, vendors, and payment processors on their technology and business strategies.

Kieran Hines ▪ *Principal Analyst* ▪ Celent

Sadly, I don't have any supernatural powers when it comes to predicting the future and I believe the same is true of my colleagues at Celent. Nevertheless, one of the highlights in our research calendar is our annual get-together to discuss the trends to watch in the year ahead.

This forms the basis of our Previsory report, in which we set out the themes and trends we expect to drive the technology and product development agenda for the industry. This includes some of the latest viewpoints from the Celent Technology Insight and Strategy Survey (CTISS), in which we survey 228 retail bank executives about their IT investment plans for 2023/2024. Based on this research, here are three trends to watch in 2024.

Trend 1: Banks will continue to invest in agility

Laying the foundations for greater agility is one of the standout technology themes of 2024. In the face of a challenging operating environment, many banks are focusing on how to be able to respond quickly to emerging product or customer-level opportunities. This reflects the broader cultural change underway in the industry. The growth of the fintech sector has undoubtedly catalysed fresh thinking among incumbents about how best to approach technology investments, as well as software development and delivering product innovation. It has also led to new perspectives over what a truly modern technology stack both looks like and can enable.

At a global level, 57% of the banks responding to our latest survey cited delivering greater speed and agility as a top three strategic priority for their technology investments in 2023/2024. This is the single biggest theme for the industry overall, ahead of considerations such as regulatory compliance, legacy modernisation and increasing operational efficiency.

One standout theme within this is the growing focus on automation. While the concept of RPA is not new, there is a growing emphasis on "intelligent automation", which brings together the principles of RPA alongside AI technologies such as NLP, and machine learning. The aim here is to unlock value in workflows such as account opening to enhance customer experiences and reduce operational costs. This is high on the agenda for banks in all regions and is the single most important technology investment priority for the industry overall in 2023/2024.

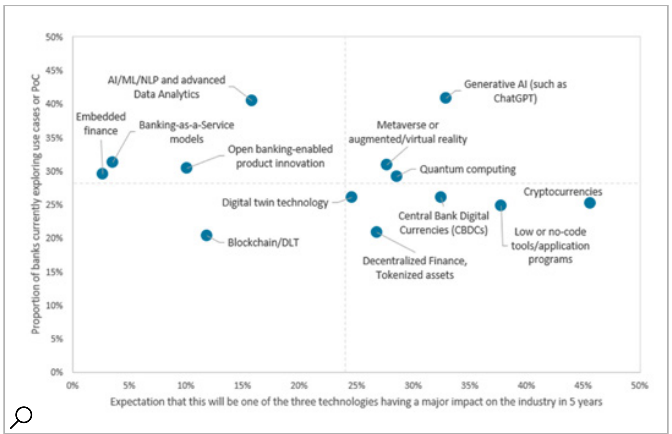
Also important this year is the growing interest in low code tools and interfaces for product and other mission-critical applications. Capacity limitations in the technology function can result in product improvement projects failing to be approved, being de-scoped, or cancelled. In short, the opposite of agility. Across the industry, 41% report that they are exploring use cases or experimenting with low code, while a further 31% have this is on their 2023/2024 roadmap. ➔

Trend 2: A deepening focus on Open Banking, BaaS, and Embedded Finance

Banks are steadily growing their investments in the open ecosystem (Open Banking, BaaS, and Embedded Finance), with 75% sharing they have a clear strategy to engage in this space in the year ahead. Indeed, the focus has already pivoted from theory to practice for many banks, with 60% reporting that they're now generating commercial gains from their open ecosystem activities. Looking more closely at open banking, the momentum in this area will continue to build. Many banks plan to grow their investments in this area, and further regulatory action will support the expansion of the broader ecosystem. Indeed, one of the big shifts in 2023 was the industry reaching a consensus over the need for regulators to be more active in reducing common barriers such as incomplete market coverage, inconsistencies in interpreting standards, and points of friction in the user experience. Also important is the recognition of the need for the better alignment of costs and incentives across the value chain. In Embedded Finance, there is a growing understanding that succeeding in this space requires new thinking and new technology. Banks need to raise their game in managing partner relationships, particularly around compliance and risk, and should also explore a growing range of solutions aimed at helping scale embedded finance.

Trend 3: Banks will continue to experiment with Generative AI

No review of what's ahead in 2024 would be complete without a reference to Generative AI. While it is still early days for the technology at enterprise level, particularly in a heavily regulated sector such as banking, the potential is certainly clear. This view shows two themes from our survey. The first is the degree to which banks are currently experimenting with each technology or emerging business model. The second is a ranking showing which the industry expects will have the greatest impact in five years.



Source: Celent Technology Insight and Strategy Survey 2023

Unsurprisingly, Generative AI tops the list in terms of experimentation and is seen as having a big future impact. Over 41% of banks currently looking at use cases or otherwise testing this technology, while a further 31% have projects on their 2023/2024 roadmap. The range of use cases in play is broad, but there are already banks in the market that are live with the use of Generative AI to support a range of internal workflows in areas such as the contact centre and customer-facing agents.

Time will tell if these predictions turn out to be accurate, but I hope to be invited back by the Paypers to review this again in early 2025!

The Paypers

Open Data Regulatory Trends to Watch for in 2024

Vlad is a Senior Editor at The Paypers, working on the Banking & Fintech team. He uses his research, content, and people skills for all activities revolving around Open Banking, Open Finance, Embedded Finance, and more. Vlad has a degree in Biology and Molecular Genetics and an extensive background in creative writing. You can reach out to him on **LinkedIn** or **email**.

Vlad Macovei ▪ *Senior Editor* ▪ The Paypers

Beginning with PSD2's emergence on the financial stage, Open Banking allowed TPPs to use customer-allowed data to develop better financial products related to bank accounts, transactions, and payments.

As the world faces new regulations that aim to introduce Open Banking and Open Finance to consumers, the new financial services paradigm will extend beyond traditional banking services. Service providers will access new consumer data pools, such as those created from investments, insurance, lending, and other financial instruments.

From Open Banking and Open Finance to Open Data

Moving past Open Finance, we have seen countries drawing inspiration from the European Open Banking model, choosing distinct paths in opening up their financial data. Their approaches serve as compelling examples of the transformative potential of open data sharing, warranting closer examination by other regions.

While Open Banking and Open Finance are specific to the financial sector, the principles of openness, transparency, and data sharing are fundamental to both. Open Data, on the other hand, extends these principles to a wider range of information, including non-financial data. Open Data, as a broader concept, includes information beyond the financial sector. It encompasses data from various industries, government agencies, scientific research, and more.

Open Data's core objective is fostering transparency, collaboration, and innovation through the unrestricted availability of diverse datasets to the public. Initiatives in Open Data aspire to facilitate the creation of novel applications, research endeavours, and insights spanning various domains.

In the evolution of these concepts, it's plausible that the principles of Open Data will continue to influence and shape how data is shared and utilised across various sectors, including finance. The trends toward openness, interoperability, and collaboration are likely to persist, fostering a more connected and innovative environment for both financial and non-financial data. However, the specific trajectory and development of Open Data will depend on regulatory frameworks, technological advancements, and societal attitudes toward data sharing in the future. ➔

European data regulation for 2024 and beyond

The European Union is pursuing a data strategy to create a unified market for data, facilitating its seamless movement across the EU and various sectors, benefiting businesses, researchers, and public administrations. On February 23, 2022, the European Commission introduced the Data Act Proposal, aiming to establish standardized regulations ensuring fair data access and utilization. This proposal, following the Data Governance Act, is the second major initiative under the European data strategy, complementing existing frameworks like the GDPR, Free Flow of Non-Personal Data Regulation, and Open Data Directive. Future regulations like the Digital Markets Act and Digital Services Act will further shape data rules.

The Data Act, **effective since January 11, 2024**, is a cornerstone of the European data strategy, pivotal in advancing the Digital Decade's goal of digital transformation. Complementing the Data Governance Act, it addresses beneficiary identification and value creation from data, promoting secure access across economic sectors and public interest areas. This legislation fosters a unified EU data market, ensuring equitable data access and distribution. As a cross-sectoral framework, it sets principles applicable across all sectors, while future legislation is expected to align with these principles.

Data privacy laws for 2024 in North America

Data privacy legislation is making significant strides in the United States, with eight states passing laws in 2023, five of which are slated to take effect in 2024. These include the Montana Consumer Data Privacy Act (MTCDPA), Florida Digital Bill of Rights (FDBR), Texas Data Privacy and Security Act (TDPSA), Oregon Consumer Privacy Act (OCPA), and Delaware Personal Data Privacy Act (DPDPA). Currently, 14 out of the 50 US states have implemented data privacy regulations, with 40 states proposing privacy legislation in 2023, indicating an increasing trend. **User Centrics** anticipates that more states will join in 2024.

Although progress has been made in data privacy legislation at the state level in the US, the implementation of comprehensive federal laws faces hurdles. However, heightened scrutiny due to technological advancements like generative AI may stimulate broader federal legislation aimed at addressing data privacy issues.

In Canada, the Digital Charter Implementation Act, 2022 (Bill C-27) is currently under review and may be enacted in 2024. This proposed legislation aims to introduce the Consumer Privacy Protection Act (CPPA), replacing the outdated PIPEDA regulation. Additionally, it entails the creation of the Personal Information and Data Protection Tribunal Act, which would establish an administrative tribunal tasked with supervising decisions made by Canada's Privacy Commissioner and enforcing penalties for violations of the CPPA. Furthermore, the Act addresses the growing impact of AI through the Artificial Intelligence and Data Act (AIDA), which advocates for a risk-based approach to regulating AI systems in trade and commerce, highlighting the significance of data privacy for consumers, as indicated by **User Centrics**.

The world's legal approach to data privacy in 2024

Privacy laws typically mandate organisations to establish a legal justification for processing personal data, which may include obtaining the individual's consent for such activities. The GDPR has heightened the standards for obtaining valid consent, requiring separate consent for each processing activity instead of a blanket consent to the privacy policy. However, many countries, especially in Asia and Latin America, still heavily rely on consent as the primary basis for processing personal data, with provisions for consent withdrawal. Transparency and explicitness standards for valid consent have also been raised in line with GDPR requirements in many jurisdictions, **Freshfields argues.** ➔

Nevertheless, several newly introduced or revised privacy laws have introduced more flexibility by incorporating GDPR-inspired legal grounds such as ‘legitimate interest’ and processing necessary to fulfill contractual obligations with individuals. For instance, countries like Indonesia, Korea, India, the Philippines, and Thailand have adopted a combination of these grounds alongside consent. In contrast, China and Vietnam still predominantly mandate obtaining individual consent in most cases. Similarly, many Latin American countries like Argentina and Uruguay require consent in most scenarios and lack GDPR-like provisions for processing personal data without consent, despite aligning with EU privacy principles in other aspects of their privacy laws.

In contrast, the UK and EU recognise consent as only one of the lawful bases for processing personal data, with consent often utilised for processing special category data or intrusive data processing. Singapore, since early 2021, has allowed processing based on deemed consent in a broader range of circumstances or legitimate interests. However, Singaporean law mandates organisations to conduct a specific Data Protection Impact Assessment (DPIA) when relying on either of these bases for processing, **Freshfields concludes**.

Conclusion

In 2024, global data privacy regulations evolve with the rise of Open Banking and Open Finance. While the EU leads with the Data Act, the US and Canada enact state and federal laws. Balancing consent-based models and alternative legal grounds for processing remains crucial in shaping future regulatory frameworks.

INNOPAY

The Old Guard Are Embracing New Opportunities

Mounaim Cortet
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Thorben Peter
Consultant
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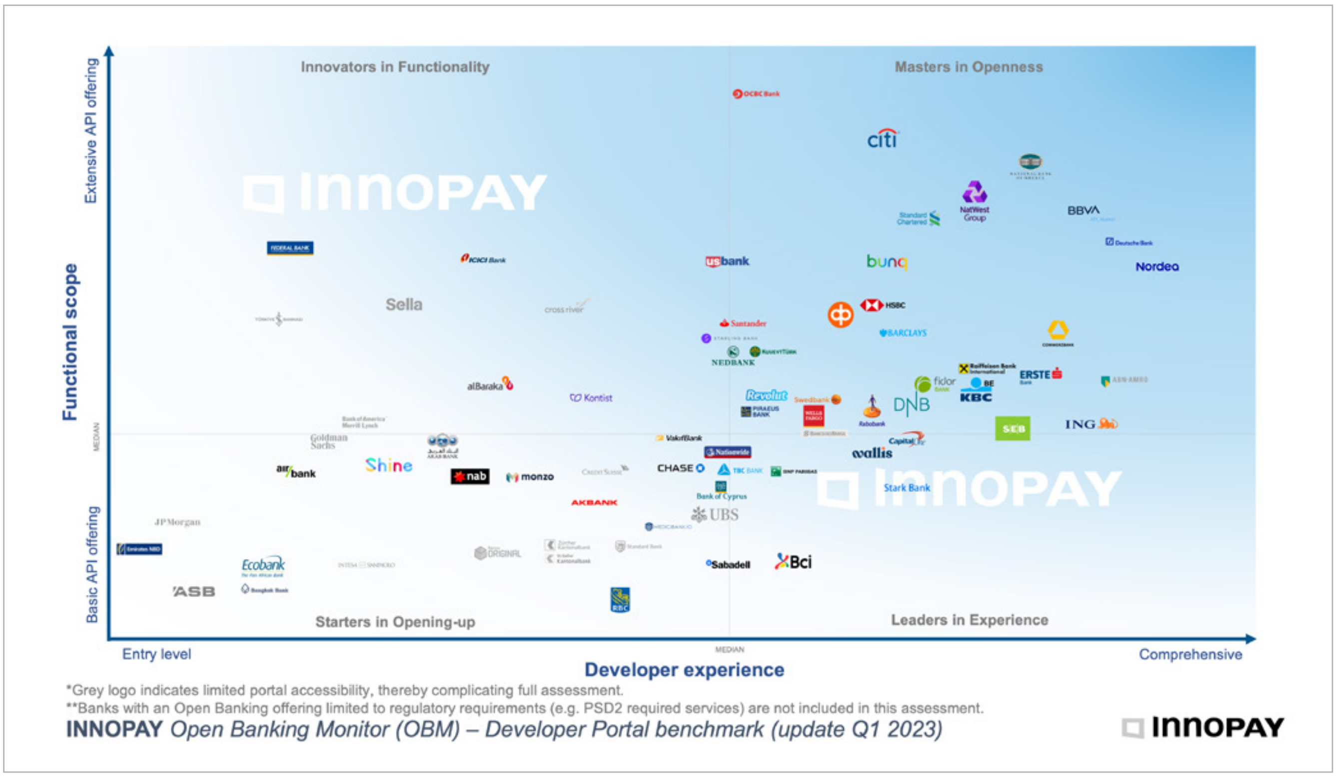
INNOPAY's **Mounaim Cortet** (Managing Director), **Jorgos Tsovillis** (Senior Consultant), and **Thorben Peter** (Consultant) combine extensive, cross-industry experience in (re)defining business and operating models in Open Finance. They help financial institutions seize new value-creation opportunities throughout the Open Finance journey.

A whole year has passed since our previous update of the INNOPAY Open Banking Monitor, which means it is high time to take a new look at where the industry stands. This recent update covers the status quo of Open Banking globally, highlighting what steps banks have taken, which general trends can be identified that will shape the industry's future, and whether these have resulted in new and innovative features and best practices that demand close attention both now and in the future. This analysis aims to offer insights into the current frontrunners, the newcomers, and the very latest API capabilities in a continuously evolving landscape.

Figure 1 – Open Banking Monitor



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3 Key Findings from the 2023 update of the Open Banking Monitor

In the following section, we highlight three key findings that have been observed since the last Open Banking Monitor (OBM) update. A visual representation of the latest Open Banking Monitor can be seen in Figure 1.

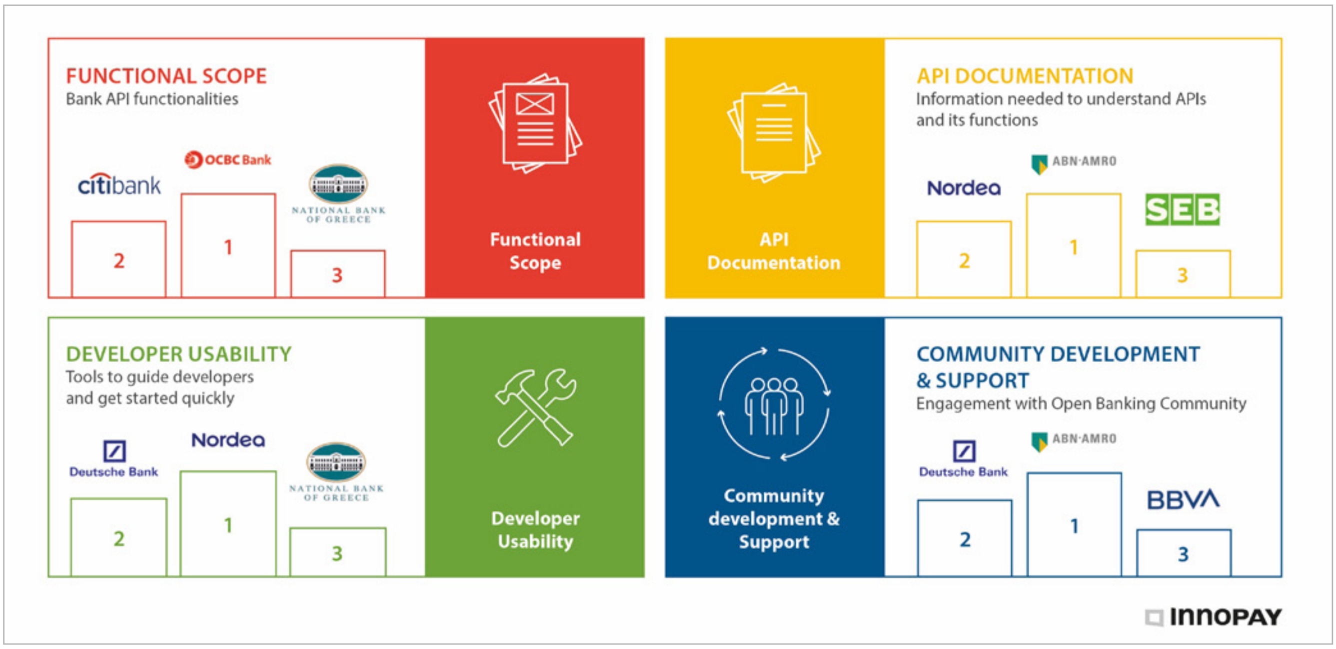
1. Community Development is driving differentiation in DevEx as Open Banking continues to evolve

European banks continue to dominate in Developer Experience (DevEx). In the latest Open Banking Monitor (see Figure 1), the upper right quadrant contains two major Dutch banks (ABN AMRO and ING Group), two large German players (Deutsche Bank and Commerzbank), and numerous other European banks (including Nordea, BBVA, the National Bank of Greece, Erste Bank and SEB). A common driver behind this differentiation can be found in the extensive Community Development efforts across these banks.

Community Development is defined as a way for banks to inform and actively engage their communities of users. Besides strengthening the bank's position within the landscape, setting up, maintaining, and growing a community around a bank's developer portal also incentivises users to drive innovation, leading to a greater variety of functionalities in a reduced timespan. This can be achieved by actively collaborating with the community by, for example, creating direct interaction channels with a respective bank, enabling users to suggest new API features or functionalities, or organising events and hackathons. The importance of Community Development is discussed in one of our **previous publications**.

Consequently, Community Development is mostly a way to differentiate and drive adoption in an increasingly competitive European market. Similarly, there is significant room for improvement in the Developer Usability of most non-European banks' developer portals. In contrast to the developer portals provided by EU banks, many of them remain unintuitive to navigate and difficult to use, requiring developers to spend significant time browsing through the portals. The latest ranking on DevEx capabilities is visualised in Figure 2.

Figure 2 – Ranking of Developer Portal Capabilities



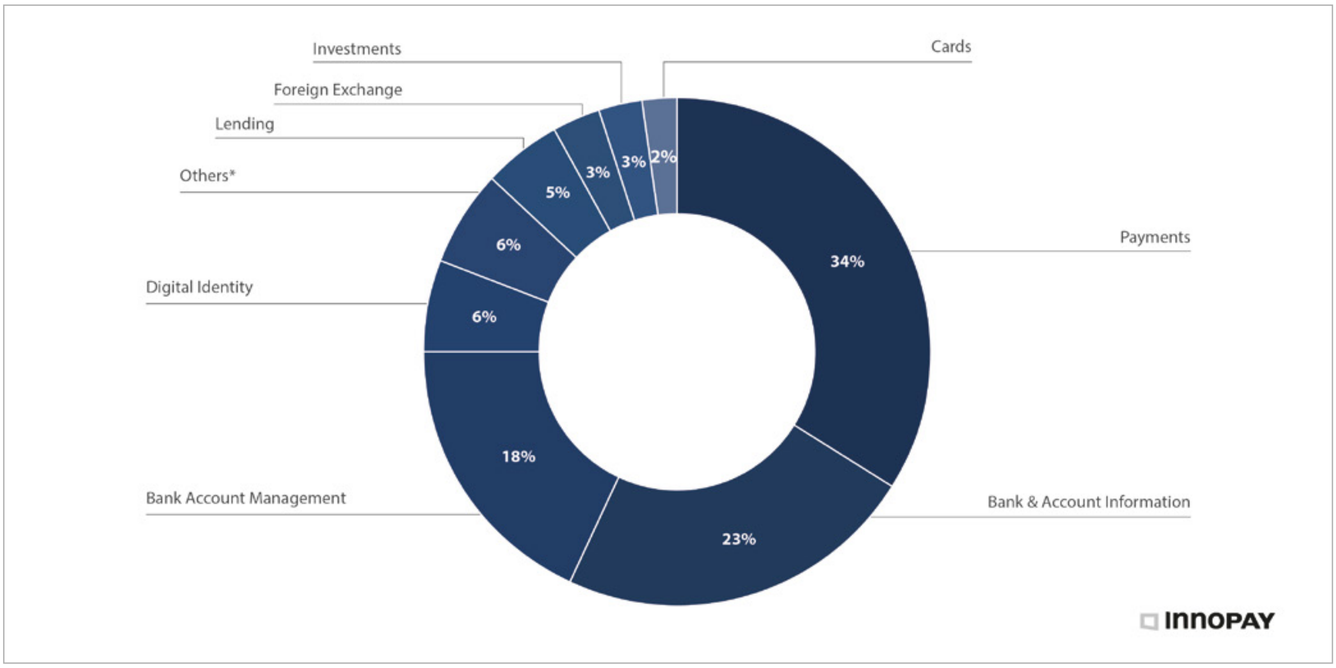
2. Payment APIs on the rise, while Account APIs remain stable but significant

Payment APIs continue to increase in number as well as in scope, now accounting for 34% of all observed API functionalities. This can be explained by the rise of more localised as well as specialised Payment APIs, such as Cross-border Payments, Instant Payments, BNPL, Recurring Payments/Standing Orders, Scheduled Payments, Request-to-pay, and Batch/Bulk Payments. In particular, the number of Instant Payment APIs is expected to continue to increase due to the current instant payment regulatory developments in Europe, which are being driven by regulators in the EU as part of their payment sovereignty agenda. →

Similarly, the US Federal Reserve will be launching its ‘FedNow’ instant payment service in July 2023, having begun the process of formally certifying banks to implement instant payments in April 2023. Moreover, countries such as Brazil and India have already adopted instant payments, in the shape of PIX and UPI respectively. As trends like these continue to spread around the globe, new use cases will continue to appear, with payment innovations built on top of these real-time rails.

There continues to be a significant number of APIs related to Bank & Account Information. They account for 23% of all observed API functionalities and remain stable in terms of scope. APIs in this category are still focused on Transaction History, Account Balance, List of User Accounts, and Branch/ATM locations. Unsurprisingly, functionalities once introduced by regulation (i.e. PSD2), such as Account Information APIs, make up the lion’s share of functionalities offered by banks. These functionalities are now increasingly being offered by banks outside of Europe. Unlike in Europe, however, the adoption of these APIs is not driven by regulation but rather by the industry itself in some markets, due to the value they can create for end-users, security enhancements, and banks’ revenue streams. Figure 3 provides a breakdown of the most relevant API functionalities.

Figure 3 – API functionality distribution

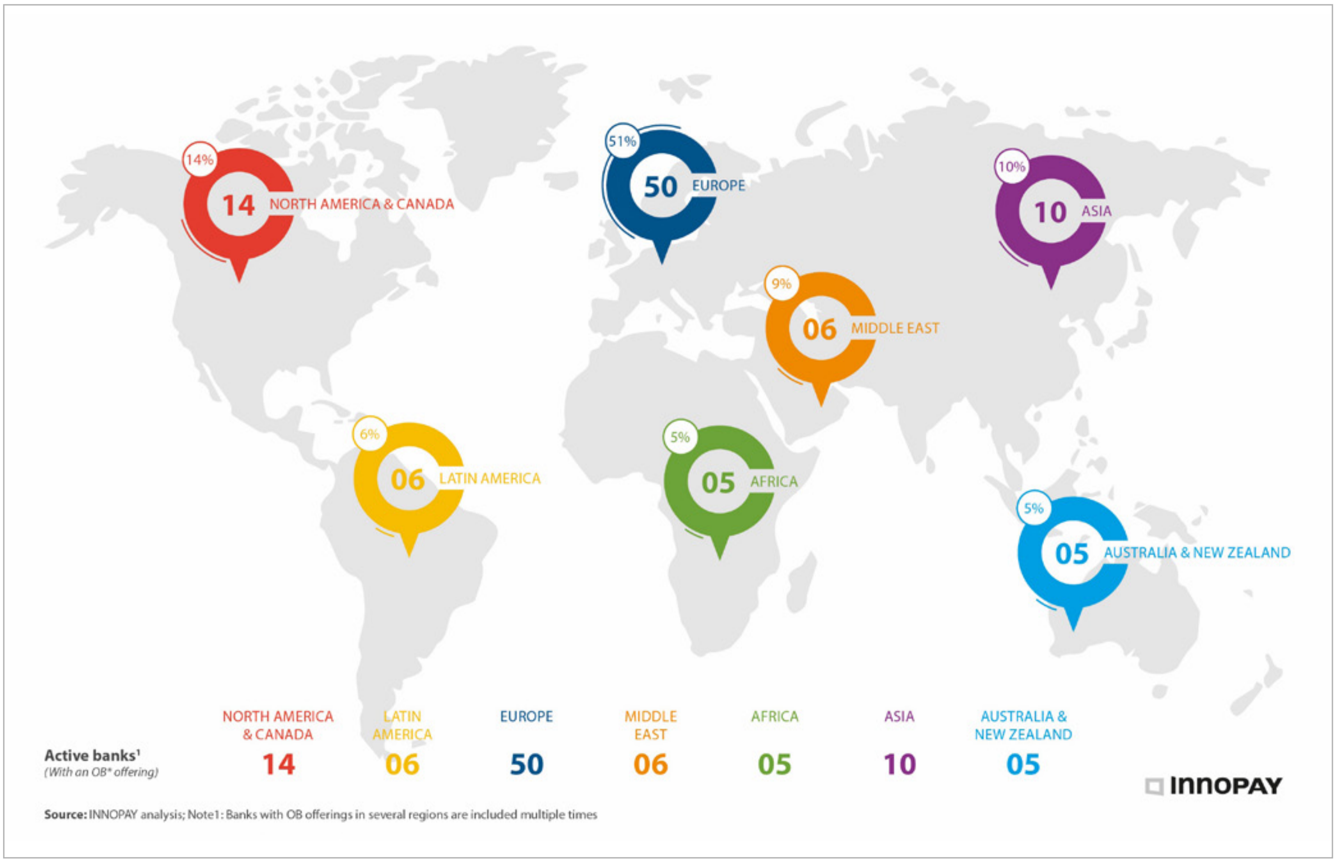


3. EU Open Banking is still leading but US Open Banking is catching up

Whereas US banks were previously lagging, there have been significant developments in the US Open Banking space in the last 12 months. While Europe still represents the lion’s share of available APIs, with 14% North American banks now make up the second-biggest geographic share in the OBM (as depicted in Figure 4). Moreover, as can be concluded from Figure 1, the quality of US developer portals has improved significantly, with Citi Bank positioning itself among the Masters in Openness. Additionally, US Bank and Wells Fargo can be highlighted due to their improved performance in the 2023 update. Both banks significantly expanded their API catalogue, with US Bank now being among the frontrunners in Functional Scope. Other noteworthy mentions are Cross River Bank as well as Capital One, with their above-average performance on Functional Scope and Developer Experience, respectively. Lastly, banking giants such as Goldman Sachs, JPMorgan, and Chase (separate portals despite being one entity) are slowly revealing their Open Banking offerings. However, they remain limited in accessibility, which makes it difficult to fully assess some US banks. ➔

One key differentiator for US banks is the extensive offering of Investment and Foreign Exchange APIs. These APIs allow end-users to directly access relevant data and insights into different investment vehicles such as stocks, bonds, exchange rates, and currency pairs offered by the banks. Additionally, some of these APIs also enable the trading of such assets at the current time or at a predetermined later date. Considering that US Open Banking developments are industry-driven rather than regulatory-driven, US financial institutions are exploring proactive, offensive Open Banking strategies to offer APIs that can unlock new value streams.

Figure 4 – Geographical distribution of Developer Portals (#) and APIs (%)



We will share further findings from our Open Banking Monitor throughout 2024. If you would like immediate access to these publications as they become available, sign up using the button below.

*INNOPAY's portfolio of services and experience can help financial institutions design, launch, and scale up their Open Banking initiatives. If you want to know more, **reach out** to discuss the opportunities for your organisation.*

Emanuel van Praag

Digital Financial Inclusion: Legislative Safeguards for Vulnerable Consumers

Emanuel van Praag, Attorney-at-law at Kennedy Van der Laan, The Netherlands and Professor of Financial Technology and Law, Erasmus University Rotterdam.

Emanuel van Praag ▪ *Erasmus University Rotterdam & Kennedy Van der Laan*

Eugerta Muçi, PhD Candidate on Open Finance at Erasmus School of Law, Erasmus University Rotterdam.

Eugerta Muçi ▪ *Erasmus University Rotterdam*

The spearhead of the European Commission is the twin transition: the **digitalisation and sustainability of the economy**. As with any transition, there are not only winners but also people who may lose out because for them the transition entails disadvantages. It is important to take an extra step for this group so that they too can come along. In existing various legislative initiatives, the European legislator pays attention to 'the vulnerable consumer' who risks falling further behind due to the ongoing digitalisation of financial services. Let us review a few legislative proposals.

Firstly, there is the **Directive on Accessibility Requirements for Products and Services** (Accessibility Act). The Accessibility Act aims to enable persons with disabilities to participate fully and effectively in society. The concept of 'persons with disabilities' is defined as *'persons with long-term physical, mental, intellectual, or sensory impairments who face various barriers in their interactions that may prevent them from participating fully, effectively, and on an equal basis with others in the society'*. This Directive pays specific attention to the accessibility of 'banking services for consumers'. Although the word bank may suggest otherwise, parties other than credit institutions can also provide these banking services. Banking services include all payment, investment, electronic money, and credit services to consumers. All these service providers must organise their services in such a way that persons with disabilities can also use them. The Accessibility Act provides detailed rules regarding, among other things, the technical design of websites and apps and the information to be provided. A special requirement for banking services is that the information must be provided at language level B2. National regulators will supervise compliance with the new rules within the financial sector from June 2025. Secondly, we would like to mention the **draft Regulation on the Legal Tender of Euro Banknotes and Coins**. In the recitals, the European legislator pays specific attention to the importance of cash for vulnerable groups, including the elderly, people with disabilities, people with limited digital skills, or those with a lower income. Also, it mentions financially excluded people, such as people without a bank account, asylum seekers, and migrants. The regulation requires that Member States ensure that cash is sufficiently available for these vulnerable groups throughout the territory of the Member State and that they intervene if this availability is threatened.

The **proposal for the Financial Data Access Regulation** (the FIDA Regulation) also specifically considers vulnerable consumers.[1] For example, recital considers: *'Data users' practices of combining new and traditional sources of client data within the scope of this Regulation should be proportionate to avoid creating a risk of financial exclusion for clients.* ➔

[1] For more about FIDA, see Emanuel van Praag's article in issue 11 of 2023 of Tijdschrift voor Financieel recht (Journal for Financial Law).

Practices that lead to a more sophisticated or comprehensive analysis of certain vulnerable consumer segments, such as low-income persons, may increase the risk of unfair conditions or price differentiation, such as charging differentiated premiums.' The EC concept, stipulates that EBA and EIOPA must lay down within the guidelines which data may be used for credit scoring of consumers and for determining risks and pricing for insurance, respectively). Meanwhile, the **proposal from the rapporteur** suggests that this should not be done in guidelines, but in regulatory technical standards (RTS) that, unlike guidelines, are formally binding. With regard to insurance, the rapporteur makes explicit that these RTS should also prevent the solidarity (*the 'risk sharing' principle*) of the insurance market from being undermined by the risk analysis becoming too precise (*granular*). The rapporteur's proposal also prohibits financial institutions from refusing consumers who do not want to share data or who are unable to do so because they do not possess the required digital skills for this.

The proposal for PSD3 and PSR (the **Third Payment Services Directive** and **Payment Services Regulation**) points out the special risks for vulnerable consumers of becoming victims of fraud. Fraud monitoring and information by payment service providers must therefore protect them in particular. In addition, persons with disabilities, the elderly, persons with low digital skills and persons who do not have access to digital devices such as smartphones, should also be able to use the security tools for payment services (Strong Customer Authentication). The same applies to the digital euro draft Regulation on the legal tender of euro banknotes and coins). This must also meet the requirements of the Accessibility Act and must have user and service functions that are simple and easy to use for persons with disabilities, functional limitations or limited digital skills, and the elderly. Furthermore, payment service providers are instructed to provide support for digital inclusion to these individuals. This support includes specific assistance in opening an account in digital euros and in using all basic services in digital euros.

Finally, we would like to mention the **draft AI Act**, the political compromise that has now been **reached**. It provides that AI systems that engage in social scoring or could lead to the exploitation of vulnerable consumers are prohibited. High risk systems that require special attention before they may be deployed are systems that serve for credit scoring of natural persons and risk assessment with regard to health and life insurance. This is again due to the specific risks for vulnerable groups. Many of the aforementioned regulations mean that financial companies have to incur costs to implement adjustments. For smaller or innovative companies, these rules can sometimes be applied proportionately Accessibility Act and the **sandbox in the AI Act**).

Our prediction for 2024 is that taking the interests of vulnerable customers into account will be an important theme for financial companies. In our opinion, more awareness is necessary and desirable. A digital society is only a fair and morally high-standing society if it is a hospitable place for everyone.

Kennedy Van der Laan

kvdl.com

KVdL was established in 1992, and since then has been driven by the ambition to serve as top-level attorneys and improve the world. With over 120 lawyers Kennedy Van der Laan is a full-service law firm. KVdL's FinTech and payments practice is highly regarded.

Erasmus University Rotterdam

eur.nl

Erasmus University Rotterdam was founded in 1913 and is a highly ranked, international research university, based in the dynamic and diverse city of Rotterdam, the Netherlands.

Paytech Modernisation: Transforming Trends in Payment Technology

We will see user-friendly interfaces, faster payment processing times, and real-time feedback mechanisms become crucial to how fintechs think about their capabilities and assess their customer journey. Anything that streamlines the client's payment procedure, from the front- to the back-end, will be valuable and crucial to success in 2024, as the industry continues to move towards truly instant payment solutions.

Irene Skyrnova, Chief Customer Officer, Unlimit

ACI Worldwide

Craig Ramsey, Head of Real-Time Payments at ACI Worldwide, shares real-time payment trends and predictions for 2024.

Craig holds over 35 years of experience working with banks on their corporate payments and banking strategies. As Head of Real-Time Payments at ACI, he ensures our products lead the industry and meet the needs of our global customers.

Craig Ramsey ▪ *Head of Real-Time Payments* ▪ ACI Worldwide

How does ACI support real-time payments?

ACI Worldwide has been supporting real-time payments since 2005, processing hundreds of millions of payments monthly across 26 networks. We provide software solutions to participant banks and central banks, facilitating secure real-time payment processing and offering fraud protection services. ACI also enables real-time payment switches in countries including Indonesia, Malaysia, the Middle East, and South America. With over 130 direct customers globally and indirect bank connections to Zelle and EU's TIPS, ACI plays a significant role in the real-time payment's ecosystem.

> *“We see almost every country wanting to embrace real-time payments because it's an easy boost to the economy and everyone's a winner when they use it.*

What factors are contributing to the widespread adoption of real-time payments worldwide?

Some countries have mature real-time payment systems, while others are growing or just beginning their journey. Maturity doesn't solely depend on how long real-time payments have existed but on how effectively they've been used. For instance, regions like the UK and Europe have real-time payments but haven't fully optimised their potential.

Consumer behaviour plays a big role. Many consumers are used to instant gratification of service; they want instant gratification of payments as well. Younger generations prefer debit cards for their real-time liquidity management, unlike older generations who rely more on credit cards. Real-time payments eliminate uncertainty about account balances, offering instant clarity. Real-time payment networks often offer cheaper transaction fees, benefiting merchants and corporations, and ultimately lowering service costs for consumers. Government involvement has made an impact, as government payments constitute a significant portion of transactions. Embracing real-time payments enhances liquidity control for individuals and businesses, facilitating faster reuse of funds.

How does real-time payment adoption impact the global economy?

If we can move money faster, we improve liquidity and the economic benefits of that money as it's moving around. A couple of years ago, there was this unproven statement in the market about the boost real-time payments give to the GDP. ACI did some research that confirmed there is a direct connection between the growth of the GDP and instant payments. As a result, the EU representatives have been very excited about our research because it helped their reasoning and their cases as to why they want to mandate the →

use of instant payments. We found a 1.6% / 2.4% of GDP growth directly attributable to the use of real-time payments in a country. Therefore, that's a good reason why we see almost every country wanting to embrace real-time payments because it's an easy boost to the economy and everyone's a winner when they use it.

What about benefits for stakeholders, how can banks make money from real-time payments?

Take Brazil for example, with the introduction of PIX, they've seen a whopping 40 million new bank accounts pop up. Now, that's a lot of folks putting their money into banks. But here's where it gets interesting for banks: being part of the real-time payments network is like having a golden ticket. It's not just about the numbers; it's about what those accounts bring: they present avenues for engaging in lending activities with individuals and small-scale enterprises. Furthermore, managing these accounts facilitates the provision of supplementary services and opportunities for value-added services. So, it's not just about payments; it's about opening new revenue streams and staying ahead.

What are the benefits for consumers? What do real-time payments mean for financial inclusion?

Real-time payments bring significant benefits to consumers and promote financial inclusion by offering immediate access to funds, particularly for recipients of social security benefits and those facing urgent financial needs worldwide. Maybe you're in Florida and a hurricane has just come through your house. You haven't got a letterbox anymore to receive a check. So, receiving a check through the mail is no longer a reality. Instead, getting that money instantly from your insurance company enables you to promptly pay your builder.

Furthermore, real-time payments streamline B2B transactions, facilitating faster trade relationships and prompt settlements, crucial during crises like the pandemic or labour shortages. This agility empowers businesses to establish partnerships and procure supplies promptly, without the constraints of traditional credit processes.

What are your predictions for the direction of real-time payments in the next 12-18 months, what potential developments can we expect to see?

Real-time payments are poised for wider merchant adoption, observed prominently in India, Brazil, and Asia. Although Europe and the US lag, there are indications of adoption by major US retailers. In Europe, initiatives like the EPI digital wallet, underscore the growing importance of instant payments in settling transactions. While Europe may initially trail the US in merchant adoption, it's expected to catch up swiftly. The mandated use of real-time payments in Europe is anticipated to foster financial inclusion and literacy, enabling broader access to financial services.

Looking ahead, cross-border real-time payments emerge as a key focus. Despite technical feasibility, regulatory challenges pose significant hurdles. Initiatives like Swift's GPI have alleviated some of these pressures. Regionally, Asia, Africa, South America, and the Middle East are positioned to witness initial cross-border implementations, followed by traditional remittance corridors. Subsequently, the integration of central bank digital currencies is envisioned to revolutionise cross-border payments, marking a significant milestone in the evolution of real-time payment systems.

Unlimit

The Paytech Trends That Will Drive Change in 2024

Irene Skyrnova is the Chief Customer Officer at Unlimit. She is responsible for all client interactions and for building the company's long-term customer strategy. Irene is an expert in customer experience, success, cryptocurrencies, and ecommerce. She boasts a breadth of international experience, holding roles that span public relations and marketing to customer care and business development.

Irene Skrynova ▪ *Chief Customer Officer* ▪ Unlimit

Now that the new year has arrived, it is appropriate to consider the difficulties the payments sector is facing as well as our hopes for the future.

Paytech saw some notable advancements in the US, Europe, and the UK last year. In this article, I discuss the trends that, in my opinion, had the biggest impact on the payments industry in 2023 and how I think those trends will continue to force fintechs to change in 2024.

Social commerce: the present and future

Of the many trends we saw last year, one that experienced a rapid rise to prominence was social commerce. A fast-growing branch of ecommerce, social commerce is facilitated by social networks and digital media and resonates with Gen Z consumers. Its rise in the post-pandemic years has been rapid, and I expect it to go from strength to strength this year as brands attempt to deepen their understanding of Gen Z consumers by meeting them where they spend the most time: social media platforms.

The data seems to bear this out, with 67 percent of consumers having already made purchases through social media platforms and 53 percent of global consumers stating their intention to shop more through social media platforms, **according to Wunderman Thompson**.

Of course, the knock-on effect of ecommerce diversifying and becoming ever more global is that fintechs must adapt and tailor their cross-border payment solutions. This year, there will be a greater emphasis on eliminating financial borders between different regions and diverse markets and for fintechs to offer solutions that connect retailers and merchants with a global customer base.

The rise of EU e-wallets

In November, under the new eIDAS 2.0 regulations, the European Parliament and the Council of the EU finalised an agreement introducing European Digital Identity Wallets. Following the full guarantee of EU law, digital wallet holders will now be able to open bank accounts and make payments, amongst other things, with their digital ID. What comes next will be a surge in demand from European consumers for digital wallets, changing how institutions think about opening accounts and executing transactions and pushing us all closer to a cashless society.

As the European payments landscape moves closer to its Chinese counterpart — which has embraced digital payments more than any other nation — we can expect a higher level of trading, increased transaction volume, and more collaborations and partnerships between financial institutions and third-party service providers worldwide. However, fintechs will once again face challenges they must overcome. The lack of uniformity across the European payment landscape, the diversity of payment preferences, and the disparities between technologies across member states will require flexible and dynamic solutions from payment providers. ➔

A borderless global market

The rise of social commerce and the demand for digital wallets in 2024 will be two great drivers forcing fintechs into a strategic rethink. Most of the industry still separates local and international payments, with integration coming via payment gateways that are often expensive and prone to delays. However, we are witnessing a shift from a segregated payment landscape towards a single global payments market as everything becomes internationalised.

To benefit from this change, fintech companies need to evaluate the performance of their cross-border payment services. Old, slow, and outdated technology with delays, difficulties, and limitations will throw up roadblocks for traders and retailers, making it harder for them to expand their businesses to international markets. It also challenges consumers who expect an efficient, effective, and seamless customer journey when purchasing products overseas.

Conclusion

So, I expect fintechs to make every effort to make transactions as frictionless as possible this year. I think we'll see a reverse in the previous trend — in which disruption forced businesses to adopt digital payment solutions quickly at the expense of UX — in favour of delivering a world-class customer experience. We will see user-friendly interfaces, faster payment processing times, and real-time feedback mechanisms become crucial to how fintechs think about their capabilities and assess their customer journey. Anything that streamlines the client's payment procedure, from the front- to the back-end, will be valuable and crucial to success in 2024, as the industry continues to move towards truly instant payment solutions.

Unlimit

unlimit.com

Founded in 2009, **Unlimit** is a global fintech company that offers a large portfolio of financial services, including payment processing, banking as a service (BaaS), and an on ramp fiat solution for crypto, DeFi, and GameFi.

Nuvei

Payment Optimisation: Not Just a Trend but a True Revenue Accelerator

Jasper has 15 years of commercial experience within a diverse range of companies. As Vice President of Commercial at Nuvei, Jasper is currently building out his business development team across EMEA and is looking forward to having conversations about how Nuvei could help support businesses across the financial services industry with next-generation payment technology.

Jasper Goeman ▪ *VP Commercial EMEA* ▪ Nuvei

In 2024, more businesses will turn to payment optimisation to accelerate their revenue. Payment optimisation is the process of streamlining and improving payment systems to ensure efficient, cost-effective, and secure transactions. This process includes selecting the best payment methods, reducing processing fees, maximising conversion rates, and enhancing the overall payment experience.

Declined payments, checkout complexity, security concerns, and a lack of personalised and localised payment options are all common reasons for cart abandonment. Our research found that 70% of all drop-offs happen after the customer enters the checkout flow and USD 260 billion in annually lost sales are recoverable through payment optimisation.

False declines have also emerged as a serious payments-related revenue drain in ecommerce, **costing USD 443 billion every year** and far outweighing the cost of true fraud. Furthermore, the decline of legitimate transactions can often cause irreparable damage to a business's reputation, with consumers choosing to shop elsewhere in the future.

Payment optimisation emerges as a critical solution to these challenges. By implementing an integrated payment system, businesses can consolidate their transactions across various channels, simplifying the management process. Additionally, sophisticated payment platforms are equipped to handle the complexities of international regulations, providing businesses with the necessary tools to compliantly expand their operations globally. In essence, payment optimisation not only streamlines the transaction process for consumers but also strategically positions businesses for sustainable growth.

That's why in a world where transaction efficiency is not just desired but required, the choice of payment processor becomes crucial. Payment optimisation done right takes a holistic approach, implementing a range of tools at each stage to improve the payment journey, ultimately increasing approval rates and accelerating revenue. These stages include:

Stage 1: Intelligent messaging

Pre-transaction optimisation tools are designed with strategic foresight, integrating advanced rules to enrich and augment each transaction message.

For example, transaction compliance can be complex and lead to declined transactions if not properly addressed. Having a partner with the technology and expertise to navigate the nuances of transaction messaging and compliance can increase authorisation rates and improve customer experience. ➔

Stage 2: Smart routing

Smart routing can help reduce declines and transaction costs by selecting the optimal path for each transaction. An acquirer-agnostic solution that can route based on multiple factors like transaction amount, currency, payment method, and type can provide limitless possibilities to optimise acceptance rates, transaction costs, chargebacks, and risk. As critical as the technology is the need for expert, human-led support to ensure you get the maximum revenue benefit.

Stage 3: Intelligent re-try

Intelligent re-try tools can reclaim declined transactions, increasing authorisation rates, and revenue.

For example, a decline recovery tool automatically resubmits declined transactions using custom rules tailored to your business. Empowered by insightful analytics, this technology can help capture every possible transaction for ultimate conversion success and increased revenue.

Stage 4: Monitoring and control

Analytical tools such as real-time reports, processing comparisons, and case management are pivotal in enabling businesses to identify opportunities for increasing revenue and minimising lost sales. By providing instant insights into consumer behaviours, businesses can tailor their checkout journeys more effectively, enhancing customer trust and retention. Additionally, effective case management not only ensures efficient dispute resolution and reduced chargebacks but also bolsters customer satisfaction and loyalty.

Looking to the future...

Over the next decade, the landscape of payment optimisation is expected to undergo significant transformations, driven by advancements in technology and shifting consumer preferences. One of the foremost developments will be the increasing integration of artificial intelligence (AI) and machine learning algorithms. These technologies will enable a more sophisticated analysis of payment data, leading to highly personalised and efficient payment experiences for both businesses and consumers. Additionally, the rise of blockchain technology is poised to revolutionise payment systems by offering enhanced security and transparency, particularly in cross-border transactions, which could dramatically reduce the time and cost associated with international payments.

The trend towards a cashless society is expected to accelerate, with digital and mobile payments becoming even more prevalent. This shift will require businesses to adopt more agile and integrated payment systems to cater to the evolving preferences of their customers. Payment optimisation solutions will not only need to be efficient and cost-effective but also robust in terms of security and compliance, as businesses navigate a complex web of global financial regulations and heightened concerns over data breaches.

Ultimately, the future of payment optimisation lies in its ability to adapt to these technological advancements and changing market dynamics, offering seamless, secure, and cost-effective payment experiences that meet the needs of a rapidly evolving digital economy.

nuvei

nuvei.com

Nuvei is a Canadian fintech company accelerating the business of clients around the world. Nuvei's modular, flexible, and scalable technology allows leading companies to accept next-gen payments, offer all payout options and benefit from card issuing, banking, risk, and fraud management services. Connecting businesses to their customers in more than 200 markets, with local acquiring in 50 markets, 150 currencies, and 680 alternative payment methods, Nuvei provides the technology and insights for customers Nuvei.com and partners to succeed locally and globally with one integration.

Spiralem

The Convergence Between Crypto and Traditional Financial Markets

Bruno Diniz is a Managing Partner at Spiralem and Professor at the University of Sao Paulo (USP). Regarded as one of the top fintech influencers in LATAM, Mr. Diniz is also a speaker, and author of the bestselling books 'The Fintech Phenomenon', 'The New Financial Logic', and 'The Age of Crypto Economy'.

Bruno Diniz ▪ *Managing Partner* ▪ Spiralem

Institutions worldwide are accelerating the development of blockchain-based solutions, causing one of the biggest transformations of our time.

For years, there has been a significant distance between traditional financial institutions and everything related to crypto-assets. The lack of understanding by financial sector professionals about this universe, combined with the absence of clear regulation in many parts of the world, made the term 'crypto' a major taboo in banks and other companies that make up the financial ecosystem.

Subsequently, only the term 'Blockchain' was prevalent, but always in contexts where the tokens themselves were not the focus. This was the phase where many players, when asked if they studied or considered using crypto assets in their institutions, would say: 'Blockchain yes, Bitcoin no'. However, there have been advancements in terms of understanding by institutions and some regulators about this subject, leading to the development of a new infrastructure and market operating model initially proposed by Bitcoin. This evolution transformed into a set of elements that are now integrating into the traditional financial market, in a process that has been called convergence.

Today, banks worldwide are creating areas related to crypto assets, aiming at structuring, issuing, trading, and custody of digital assets, as well as the tokenisation of real-world assets and financial products. Moreover, topics such as NFTs, Web3, and DeFi (decentralised finance) are being discussed in innovation and product development areas, and all the innovation, cost reduction, increased customer engagement, and agility brought by this new reality are beginning to be considered and explored.

Among some of the elements that have helped in this advancement – besides the greater level of maturity reached by the crypto ecosystem over the years – we have the emergence of friendly regulations in different parts of the world, the expansion of specialised service providers (such as tokenisation platforms and companies offering crypto-as-a-service), the proliferation of hybrid solutions (which have components of decentralised finance and traditional mechanisms), and the development of CBDCs (central bank digital currencies) worldwide.

Catalysts for change

Starting with regulation, we see the development of guidelines or recommendations for the application of laws dealing with crypto assets in the financial sector, the creation of supervisory structures – either by incorporating this role into an existing body or creating a specific one for this purpose – training of staff in these topics, and the use of technologies and tools that allow for the measurement and supervision of new activities. Countries like Brazil, Malta, and Switzerland are among those that have approached the topic in a friendly manner. On the other hand, China, Venezuela, and the US are on the opposite end of the spectrum, either prohibiting or not providing clarity on how institutions within this ecosystem should (or should not) operate. ➔

The providers that assist in the integration process between these two worlds are also important catalysts for this change. Starting with the tokenisation platforms, specialised in converting everything from real assets (like real estate, and art, among others) and financial products (such as bonds, stocks, and many others) into tokens traded on blockchains. Some benefits of this movement include fractionation of ownership, cost reduction by removing intermediaries, increased liquidity (both through fractionation and the possibility of being traded in a global, borderless market), faster transaction speeds, increased security, greater transparency, insertion in a programmable environment, among other possibilities that are emerging in a constantly evolving environment like the crypto ecosystem.

Providers of crypto-as-a-service perform an activity that conceptually resembles the provision of traditional financial infrastructure by companies operating in Banking-as-a-Service – typically involving a pay-per-use service model, usually based on the volume consumed. The main similarity is that, in both cases, digital platforms and API integrations (programming interfaces) are used to accelerate the delivery of a certain financial capacity to a company – being a significant shortcut in this journey. In Brazil, companies like Nubank, Mercado Pago, and 99pay use the assistance of such providers to enable solutions for buying and selling crypto assets on their platforms.

Among the hybrid solutions, we see those where the user experience resembles what we have in the current market, but the internal processes use new technologies like DeFi (decentralised finance). Examples in Brazil include fintechs like Credix and Cloudwalk, which manage to combine the best of both worlds (the UX of the traditional environment and the reduction of intermediaries and global scale of the crypto world).

Finally, we see CBDCs as an infrastructure component provided by central banks that adds 'programmability' to the economy. CBDCs (especially in the case of Brazil, like the Digital Real) have great potential to contribute to this. In Brazil, this innovation will promote an orderly transition conducted by the local Central Bank towards a tokenised reality, bringing more assets into blockchain structures – fostering the activity of agents participating in the crypto economy while opening connections with the vast environment of Web3.

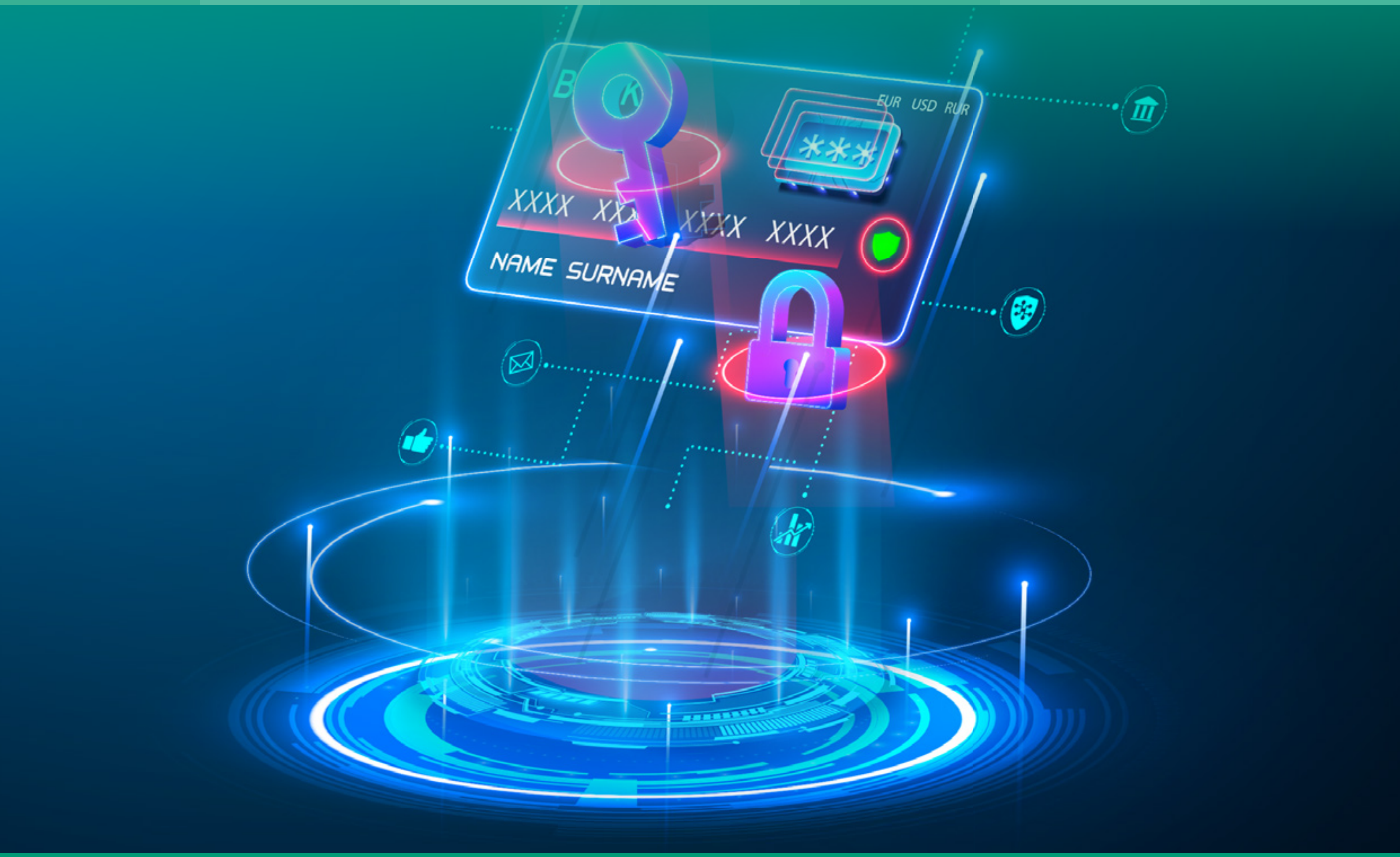
We are halfway there

Change processes usually take time, but nowadays, every minute counts. No player can afford not to experiment, test, and optimise their businesses in the face of this reality. There are significant opportunities in the transition, and it is necessary, as it represents a relevant update in the context of business conducted in the financial market. The parallel can be drawn to when the market inevitably had to move towards enabling new operations, automation, and interfaces as the internet gained relevance and user adoption.

Just like it happened in the early days of the internet, those institutions that move quickly will be able to improve their learning curve and benefit greatly from it before others, while managing the reconfiguration of revenues and potential cannibalism of some business units entrenched in the old way of making money in certain markets.

It is crucial to understand this movement and the different elements that compose this new reality – which will transform not only the financial market but the entire society – before it's too late.

Fraud Sophistication and Regtech Compliance: Evolutionary Trends in Financial Security



We see many organisations adopting AI and machine learning tools to be more efficient, rather than effective. However, AI needs to be used also for effectiveness. An investigator has to look deeper into suspicious activity; to detect, investigate, and report it.

Adam McLaughlin, Global Director of AML Strategy & AML SME, NICE Actimize

LexisNexis® Risk Solutions

A Balancing Act: Perfecting the Art of a Gold-Standard Customer Experience Amidst the Evolution of Digital Fraud and Payment Regulations

Edward Metzger is responsible for the commercial strategy and performance of the Payments Efficiency business within LexisNexis® Risk Solutions. Before this role, Edward progressed through a variety of financial services roles over the last twenty years during his time with Banco Santander, Barclays, and Accenture.

Edward Metzger ▪ *VP of Market Planning Payments Efficiency* ▪ LexisNexis® Risk Solutions

Emilio Rocchi is responsible for the responsible for the international payment strategy for the Fraud & Identity business within LexisNexis® Risk Solutions. Before joining LexisNexis® Risk Solutions, he was a Solutions Consultant specialising in ecommerce and cross-border payments in EMEA, Americas, and APAC at Ingenico ePayments for nine years. Before this, he worked at Ipswitch.

Emilio Rocchi ▪ *Director of Market Planning International Fraud & Identity* ▪ LexisNexis® Risk Solutions

PSD3: Driven by an exponential increase in digital fraud

Digital fraud has sharply increased simultaneous with a significant rise in alternative payment methods. In tandem, we have also seen the emergence of new generative AI fraud models. To combat a constantly shifting threat landscape, the European Union (EU) has introduced the Payment Services Directive 3 (PSD3) to bring enhanced security to the payments ecosystem whilst maintaining a seamless customer experience.

What is the difference between PSD3 and PSR?

PSD3 and Payment Services Regulation (PSR) both offer unified frameworks that streamline the financial landscape for traditional and fintech players, ensuring a collective commitment to consumer safety. However, there are differences between the two. PSD3 is a directive with room for interpretation and is implemented in various ways across EU member states, whilst PSR is a ruling directly applicable to all EU countries.

How does PSD3 impact your business?

The inception of Open Banking was a result of the ripple effect of Payment Services Directive 2 (PSD2), fostering endless innovation among fintechs and digital banks. Under PSD3, there is room for even further advancements. This is because Payment Service Providers (PSPs) and Third-Party Providers (TPPs) bear full responsibility for fraud unless they can demonstrate their efforts to prevent it. The path has been paved for pioneering combative solutions.

The key to winning in this ever-evolving payments landscape is to avoid customer friction through the powerful combination of data and technology – both within the customer journey at the front end, as well as in the background. ➔

Balancing customer experience with safety

The constant and unwavering evolution of customer transaction behaviour and demands have heavily influenced PSD3. There is a growing emphasis on instant payments and the expectation that consumers should have a gold-standard experience while also being safeguarded. Mastering the skill of simultaneously balancing these aspects in an ecosystem underpinned by ever-evolving regulation is crucial.

Passive and continuous authentication

Companies will thrive in this regulatory environment through equilibrium: protecting against fraud without compromising data privacy or ease of payment for consumers. Successfully synchronising the use of technology and data means that players in the payments space can and should strive for a holistic combination of passive and continuous authentication.

LexisNexis® Risk Solutions dedicates considerable resources to supporting clients in protecting customers while providing a great consumer experience. For example, one of our newest solutions enables users to verify personal and business beneficiary bank account names or statuses for up to 58% of the world's population. By seamlessly and securely confirming that account details are routed to the true intended end recipient for cross-border and domestic payments, customers can combat Authorised Push Payment (APP) fraud and improve customer relationships simultaneously.

What does the future look like?

Like the shifts witnessed with PSD2, we are guaranteed to see some gripping seismic shifts in the ecosystem. Despite an initial lag, players will soon rise to the challenge and consider broader developments beyond regulation.

The EU will be at the forefront of a more dynamic and user-centric payments network, building on initiatives like PSD2 and Open Banking that prioritise consumer empowerment. Successful global payment schemes, such as PIX (Instant Payment System) in Brazil and UPI (Unified Payments Interface) in India, will serve as inspirations for the EU to foster solutions that benefit customers and support safe instant cross-border payments. Beyond Europe, amidst geopolitical upheavals, society's growing demand for controlling financial crime and ensuring transparent transactions will persist.

A collective commitment to consumer safety and experience

Organisations are all striving for the ultimate north star: consumers enjoying a seamless experience with the added confidence that their information and transactions remain secure. LexisNexis® Risk Solutions leverages fraud intelligence specific to each industry to protect consumers. Our comprehensive anti-fraud and payments efficiency portfolio authenticates digital, physical, and behavioural criteria throughout the entire customer journey, combating identity and transaction risk on a global scale.

Get in touch to find out more about how we strive to supercharge the performance of the whole payments ecosystem through the power of data and technology.

NICE Actimize

In the discussion, Adam McLaughlin emphasises the crucial distinction financial institutions need to make between efficiency and effectiveness in adopting technology, as compliance goes beyond mere checkbox activities.

Adam McLaughlin is the Global Head of AML Strategy and Marketing and the AML Subject Matter Expert at NICE Actimize. Adam possesses several years of operational experience in identifying and mitigating financial crime risks. Prior to joining the company, he spent many years managing financial crime teams and mitigating financial crime risk in financial institutions. Adam was also a Police Detective in the U.K. for 10 years, managing a Financial Crime investigation team in the City of London Police, the U.K.'s national lead force for Economic Crime for three of those years.

Adam McLaughlin ▪ *Global Director of AML Strategy & AML SME* ▪ NICE Actimize

How did sanctions screening/transaction monitoring compliance evolve in 2023? What were the significant highlights and events in this space, and what valuable lessons can be drawn?

The evolution of sanctions screening and transaction monitoring compliance in 2023 witnessed notable trends and events. The ongoing Russia-Ukraine conflict resulted in a surge of sanctions, impacting both individuals and corporations. Compliance teams faced heightened workloads as they had to ensure always up-to-date screening lists, ensuring comprehensive coverage for existing customers and their transactions.

> *“We see many organisations adopting AI and machine learning tools to be more efficient, rather than effective. However, AI needs to be used also for effectiveness. An investigator has to look deeper into suspicious activity; to detect, investigate, and report it.*

The Economic Crime Act introduced in the UK in 2022 played a significant role in this space by providing clearer guidelines and consequences for law violations. The Act empowered UK sanctions authorities, emphasising a ‘strict liability’ test assessing sanctions breaches against civil liability of ‘balance of probability’ rather than the criminal liability of ‘beyond a reasonable doubt`. Towards the end of 2023, the UK National Crime Agency issued a red alert notice on sanctions, targeting a number of Asian corporate entities and other countries aiding Russians in evading sanctions.

This surge in sanctions complexity prompted financial institutions to increasingly leverage technology, aiming to streamline processes, control costs, and mitigate the risk of sanctions breaches.

On the Transactions Monitoring (TM) front, organisations embraced anomaly detection and network analytics to enhance accuracy, reduce false positives, and identify suspicious activities more effectively. ➔

How has technology shaped and influenced the landscape of sanctions screening/transaction monitoring compliance?

Financial Institutions are looking to increase the effectiveness of sanctions screening by getting greater intelligence. It is using data intelligence tools and big data to increase the information available on customers and counterparties, to be able to screen them more accurately. Teams are trying to enrich the profiles of customers and counterparties because obviously, sanctioned screenings are only as good as the data you've got to screen against. For instance, a richer data set about a customer comprises of name, date of birth, nationality, country of origin, etc., and offers richer hits against sanctions lists. On the opposite, sanctioned individuals try to obfuscate themselves by adding spelling mistakes in their names or changing personal information.

The right technology can perform fuzzy matching to accurately match names even in data that has errors, helping organisations to avoid missing info that can lead to them getting fined. Furthermore, technology can help you be efficient and effective, it can reduce false positives, take away manual effort (especially in investigations that need a lot more resources and screening), and it can help automate processes.

What are the key driving factors behind the rising use of technology in sanctions screening and transaction monitoring compliance?

Organisations decide what is the driving force behind adopting a specific technology. When it comes to TM technology, we see many organisations adopting AI and machine learning tools to reduce false positives and speed up investigations, looking more to reducing their costs, to be more efficient, rather than effective. However, this is not the best approach. AI needs to be used also for effectiveness. An investigator has to look deeper into suspicious activity; to detect, investigate, and report it.

Financial institutions need to synchronise their efficiency strategies within their systems and annual risk-based assessments. For AI to be effective, financial crime teams must introduce advanced tools like network analytics and anomaly detection. These technologies are crucial for identifying patterns or behaviours that fall beyond the parameters of the company's rules-based system, historically undetected by conventional rule-based approaches.

Unfortunately, compared to the last five-six years, the current economic uncertainty pushes down compliance spending, influencing financials to opt more for a let's be more efficient than effective mindset.

Who are the main stakeholders affected, and what are the discernible benefits and risks for financial institutions and other actors?

With the widespread acknowledgment that AI plays a crucial role in financial crime prevention and compliance in the financial services sector, both regulators and organisations are actively endorsing its adoption. AI has become indispensable; organisations are compelled to integrate it, considering it the industry norm. Even if an organisation relies on manual processes, the prevailing trend involves the implementation of AI across the sector. In the regulatory landscape, the focus is primarily on meeting the stipulated requirements. The use of AI is not mandated but recommended for maintaining industry standards.

Efficiency in compliance processes is generally acceptable from a regulatory standpoint. If an organisation aligns with the established regulations, the specific approach to achieving compliance, whether manual or automated, is considered compliant. However, challenges arise in the long term when high-profile investigations reveal lapses in compliance effectiveness. While regulatory fines can motivate a shift toward effectiveness, it often takes reputational damage or exposure in the form of a significant scandal or fines or supervisory penalties to prompt serious investment in enhancing compliance effectiveness. →

Can you provide insights into potential opportunities and use cases related to the increasing use of technology in sanctions screening and transaction monitoring compliance?

Various use cases distinguish between the applications of technology in sanctions and transaction monitoring (TM) within the financial crime landscape.

On the sanctions side, the primary focus is on minimising false positives to prevent legitimate customers from being ensnared in a sanction's investigation, particularly concerning payment transactions. Blocking payments erroneously identified as sanctions hit can lead to customer friction, an undesirable outcome. Screening extends beyond sanctions to encompass adverse media, politically exposed persons (PEPs), and more.

In TM, the objective is to ensure that alerts are triggered only for genuinely suspicious activities, ultimately leading to the reporting of such activities to law enforcement authorities. Achieving this goal involves the implementation of systems capable of identifying the right activities and providing accurate information to law enforcement.

While AI and machine learning are commonly discussed, rules-based systems still play a crucial role. These systems serve as checks and balances, acting as benchmarks for AI-only systems. The integration of AI should augment rules, not replace them. Anomaly detection, along with rule systems featuring thresholds, becomes essential for detecting additional suspicious activities.

Network analytics, although not new, has gained prominence by extensively examining relationships, transaction flows, and connections between parties to determine potential suspicious links. This approach adds an extra layer to detection capabilities.

The emerging trend of generative AI is anticipated to be significant in the coming year, particularly in generating Suspicious Activity Reports (SARs). The technology can automatically compile information gathered, summarise it, and create a narrative for SARs, potentially streamlining the reporting process. However, human involvement remains crucial to reviewing, editing, and ensuring the final quality of SAR narratives.

Another noteworthy development is the growing emphasis on information-sharing systems between organisations. The introduction of regulatory frameworks, such as the Economic Crime and Corporate Transparency Act in the UK, facilitates secure and legal information sharing among entities. This trend is expected to see increased adoption and innovation in information-sharing technologies soon.

For more information see: **Facebook**, **LinkedIn**, **X**, **YouTube**.

NICE Actimize

niceactimize.com

NICE Actimize, the leading provider of financial crime solutions, offers innovative technology to protect global financial institutions and regulators. Specializing in anti-money laundering, real-time fraud prevention, and trading surveillance, the company addresses concerns like payment fraud, cybercrime, sanctions monitoring, and insider trading. Explore more at www.niceactimize.com or Nasdaq: NICE.

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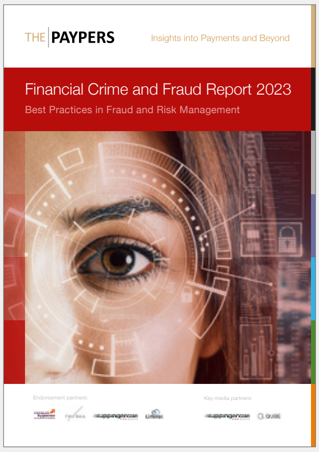
Open Finance Report 2023

Payment Methods Report 2023



Financial Crime and Fraud Report 2023

Embedded Finance and Banking-as-a-Service Report 2023

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