Trends

What will be the trends in payments next season?

Jesús Lozano
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Autumn is traditionally the season when payments become a central topic in banking conversations. One of the main reasons for that is SIBOS, the global event organised by SWIFT that once a year gathers payment experts and financial companies at a different venue to talk about recent and next breakthroughs and trends that will shape the payments industry in the coming years.

This year has not been an exception and some major consultant firms (Capgemini, The Boston Consulting Group and McKinsey[1]) have published their payment reports in advance of this year's meeting in Sidney with the aim of being present at SIBOS' conversations.

The three reports confirm the **central role of payments as one of the main points of interaction and engagement with customers and one of the activities where more innovation is taking place**, probably due to its high importance in banking returns (34% of overall banking revenues in 2016 according to McKinsey). The Boston Consulting Group expects payments to account for $1 trillion in revenue by 2027 thanks to a solid growth in electronic transactions that will outpace the decline in unit revenues.

The main reason behind this sustained growth is the digitalisation of payments in the developing countries and the increase in competition and convenience in developed countries. Nevertheless, Big Techs' and Mobile Network Operators' e-wallets are responsible for most of the growth in non-cash transactions in Asia and Africa **while cards are still king of non-cash transactions** in Europe and US.

This **increase in revenue will be led by emerging Asian and European countries, Africa and Latin America** that will experience double-digit growth rates in transactions at least until 2021 by when they will have surpassed developed economies transaction volumes and revenues as they have already done with North America. Also, the Boston Consulting Group and McKinsey agree that **retail payment revenues are more robust** than wholesale payments revenues.

Thus, the only non-cash payments that are expected to decline in the coming years are direct debits and, especially, cheques, with the US accounting for 75% of global cheque volume and being the only country where they are not being massively displaced.

Main trends

Taking these reports as a starting point, we can highlight 5 main trends that will take place in the payments arena in the following years:

- **Open Banking**. This has been one of the hottest topics over the last 5 years, especially due to the regulatory initiatives launched in UK and Europe. However, **countries as disparate as Mexico, Japan, Australia and South Africa are joining this movement and promoting openness in their local markets** either for purely institutional information (fees, ATM/branch allocation), customer information or payment initiation. In fact, McKinsey has estimated that open data has the potential to unlock $3-5 trillion in economic value globally.

1: Capgemini published its World Payments Report 2018, The Boston Consulting Group the report Global Payments 2018: Reimagining the customer experience, and McKinsey & Co, Global Payments 2017: Amid Rapid Change, An Upward Trajectory

- **Mobile wallets and contactless payments**. Mobiles are the devices best positioned to replace cards as the preferred electronic payment instrument. Thus, they will be the most relevant electronic payment method in Asia and the emerging countries, thanks partially to the new surge in payments based on QR codes. However, card-based contactless payments (either by using cards, mobile sensors or wireless-enabled wearables) are expected to be the most prevalent method in Western countries.

- **Cashless society**. Although the Nordic countries and UK are frequent examples of the move towards cashless payments, countries like Canada, China, India, Russia, South Korea and Turkey have made a lot of progress towards going cashless. In fact, the two latter countries intend to completely displace cash in a few years.

  Going cashless is seen as an opportunity to improve the economic conditions of a country and foster digitalisation and innovation as well as to reduce corruption and fraud. However, the rapid move towards a cashless economy has given rise to a debate on the risks that the full displacement of cash could have. For instance, in Sweden there are growing concerns regarding the impact that a cyberattack could have on the payment infrastructures available (as already occurred with the outage of a cards network on 1 June 2018) and in Canada, its Central Bank recently issued a report addressing this issue[2].

- **Instant payments**. Real time payments are one of the key ingredients for developing new payment solutions. The combination of Instant Payments and other technologies such as APIs, DLT, IoT and AI will make account-based payments more appealing and foster innovation in this field.

  Although the higher speed of these payments is the obvious advantage, other improvements brought by this payment service, such as payment certainty and transparency are highly regarded by users. Nevertheless, the explosion of these type of payments strongly depends on the wide adoption of instant payment solutions by payment providers in countries where instant payment systems have already been launched.

- **Crypto**. Since the appearance of the first cryptocurrencies in the market, they have been considered as one of the main sources of innovation/disruption in the payments industry. Although cryptocurrencies are currently experiencing deep market distress, the underlying technology offers opportunities for digitising and decentralising cash. Thus, **Central Bank Digital Currencies**[3] are entering the authorities' agenda.

What's next?

The above trends are not new and have been present in payment conversations for years. However, most of them are now a reality and are becoming widespread in some regions.

Therefore, **how the next payment landscape is shaped will depend strongly on the actions taken by the players involved in the payment activity (banks, fintech, big techs, customers and authorities)**. The degree of collaboration/competition between players in the payments market and the stance of regulators towards it will be especially relevant.

Collaboration between fintechs, big techs and banks will allow them to leverage each other's strengths and develop innovative payment solutions. However, this collaboration will depend strongly on their initial positions. Most fintechs have a clear need for banks or big techs to scale their solutions; at the same time, some banks will need to rely on fintechs to keep up with the pace of innovation. Big techs and banks will most likely collaborate in areas like mobile payments but compete in others such as the creation of alternative payment methods depending on their respective competitive strengths (customer base, trust and access to payment infrastructure in the case of banks, and their digital ecosystem, global reach, and technological superiority in the case of big techs).

Undoubtedly, **the role of regulators will be paramount in this evolution**. Payment regulations will have to find a balance between conflicting objectives: risk reduction, standardisation, transparency, competition and innovation.

2: See: Is a Cashless Society Problematic? (2018). Bank of Canada Staff Discussion Paper 12-2018.
3: See: Christine Lagarde's Speech in Singapore Fintech Festival. Winds of Change: The Case for New Digital Currency. 14 November 2018.

Europe will probably remain the global reference in payment regulation. Indeed, it is already starting to review the not fully implemented payments package[4] and the cross-border Payments Regulation[5]. It will have to respond to new challenges such as removing anti-competitive approaches in new payments methods or increasing competition in cross-border payment services without disincentivising innovation or harming the business model. In other geographies regulators will probably focus on access and enhancing payment infrastructures and digital literacy.

Finally, a gentle push is needed in **payments standardisation** in order to avoid the fragmentation of payment solutions, especially at the international level. Currently, the rise of different local payment methods is a barrier to the use of electronic payments by non-local users and is challenging cross-border interoperability of payment services that could end up harming financial and economic flows. At the retail level, **QR codes are emerging as the best candidate for interoperability in local retail payment solutions while SWIFT will continue facilitating the cross-border interoperability of payment services**, as has already happened with the proof of concept of interoperability for real-time payment systems in Thailand, Singapore, Australia and China.

4: The original payments package comprised: The Cards Interchange Fee Regulation, the Payments Account Directive and the PSD2, that will be fully in force in September 2019.
5: See: European Commission, Review of Regulation on cross-border payments

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CONTACT DETAILS:
BBVA Research: Azul Street. 4. La Vela Building – 4th and 5th floor. 28050 Madrid (Spain)
Tel.:+34 91 374 60 00 and +34 91 537 70 00 / Fax: +34 91 374 30 25
bbvaresearch@bbva.com www.bbvaresearch.com