STANCHION

Payments Trends 2024

STANCHION PAYMENTS – **FIRST ANNUAL REVIEW**

This comprehensive report analyses the evolving landscape of global payments, highlighting the key trends, challenges, and opportunities. We review various authoritative sources, including Boston Consulting Group (BCG), McKinsey, Accenture, Cap Gemini, EY, Deloitte, JP Morgan, FIS and Consult Hyperion.

Readers can expect to explore diverse perspectives on key themes such as embedded finance, digital transformation, regulatory changes and the rise of new payment methods. Each section of the report synthesises the findings from these leading consultancies, offering a well-rounded understanding of the evolving payments ecosystem.

BOSTON CONSULTING GROUP

The BCG report is a standout read, with the quality of the infographics being excellent.

The BCG narrative, which drives bank executives on their investment themes and directions to meet shareholder returns, is what makes this report different from others.

For example, whilst 2023 has seen acquirer shareholder returns plummet 40%, the mid-term expectation is that the issuing business will face a more significant slowdown owing to macroeconomic trends and the growth of new payment types, especially a/c to a/c rails and the growth in payment innovation (VAS) primarily aimed at SMEs.

THE KEY POINTS THAT STOOD OUT TO US WERE:

1. **The report shared many similar endorsing points to McKinsey on trends, especially**
   a) Embedded finance,
   b) GenAi in product development,
   c) Simplified operations,
   d) Advancing analytics/loyalty, and
   e) Speeding up legacy modernisation

2. **Acquiring View:** From Pages 12 to 17. Revenue is expected to rise by 6.9% annually over the next five years (see breakdown by segment on Page 13). The payments process is riddled with pain points that need to be addressed. For example, a well-conceived front-to-back redesign can boost acquirer revenues by 2% to 3%, cut onboarding costs by 5% to 20% and lift net promotor scores by 15 to 30 points.

3. **Issuing View:** From Pages 18 – 22. The growth wave issuers have long been riding is breaking and will be rougher in the next five years. We expect issuer revenues globally to grow by a CAGR of just 5.5% from 2027. Regulatory action on late fees could compress margins even further. As the tech stack opens, infrastructure specialists are emerging with capabilities to help traditional issuers gain market advantage and manage parts of their business more cost-effectively. This new wave of service providers includes issuing processors, loyalty experts, debt collection enablers and other niche players.

Boston Consulting Group (BCG) REPORT - click here

Title Of Report:	**2023 GLOBAL PAYMENTS REPORT -** *Investor Scrutiny Provokes a Moment of Truth*
Size Of Report:	40 pages

Regionally, North America will face the greatest CAGR challenge, while APAC (excluding China) will experience the most significant growth. Africa, MENA, LatAm and Europe will remain steady.

Four areas to top the payments leadership agenda:

- Operational Resilience,
- GenAI,
- Risk Management and Compliance, and
- Mergers and Acquisitions.

As Loyalty is up for grabs, Issuers must become tech and data led, offering multichannel orchestration, embedded finance and data-as-a-service. For example, they can support cross-channel journey orchestration and permit simple, ongoing reporting. These improvements can help issuers speed up cycle times by 60% to 80% and improve conversion rates of product offers by 20% to 30%.

4. **Modern Payments Architecture** (page 28) comprises six core elements.

5. **Payments Infrastructure Revolution:** From Page 29. Nearly every global payment ecosystem element is undergoing a rebuild, from rails to regulation to currencies.

Five trends reshaping infrastructure:

a) Infrastructure at a tipping point with RTP/Instant Payments to lead.

b) New Payment Rails have momentum – Cards to remain dominant, BUT APMs will grow twice as fast as person-to-merchant payments from 2022 to 2027 (Poland Blik & Brazil PIX examples).

c) CBDCs are still several years away, but the most exciting use cases are programmable payments, the ability to integrate CBDCs into smart contracts and other forms of decentralised finance.

d) Open Banking could finally deliver on the promise – Infrastructure providers can support banks with solutions that make compliance with regulatory mandates easier to review and allow banks to leverage open banking innovations for commercial applications.

e) Regulators are raising the bar (again). The European Commission has published draft proposals for PSD 3, Payment Service Regulation, and Regulation for Financial Data Access to reduce fraud, improve consumer rights and create a more level playing field between banks and nonbanks. In addition, local rails, scheme issuance and co-badging could cut into card companies' revenue growth and impose new data security and operations requirements.

6. **Infrastructure Providers Must Lead the Revolution or Get Left Behind – This section features four recommendations:**

a) Pick a strategic focal point (examples in the report).

b) Facilitate modernisation by enabling solutions as a service and supplying expertise in use case development. Leaders can tailor the data needed for open banking, CBDC, and other types of exploration to specific audiences

c) Partner with policymakers.

d) Diversify value streams – infrastructure providers should lean into orchestration-layer propositions and enable at-scale VAS.

7. **The summary map**, Exhibit 13, is worth reading.

McKinsey & Company

Another report with rich information. Some interesting points include a pitch for the transition to Payment's 4th era – decoupled payments (see exhibit 4, page 15).

Some notable themes come to the surface:

1. It also picks up on the megatrend for embedded finance, as referenced by others.
2. How simplifying/automating Paytech modernisation in operations will reduce costs by 20% to 30% and halve the time it takes to innovate.
3. Interesting points about using technology and processes (especially Gen AI) in payment product development were made.
4. Messages about the need for next-gen fraud and advanced actionable insights.
5. How commercial payments (especially for C2B & SMEs) will be a key driver for future growth.

McKinsey REPORT - click here

Title Of Report:	**2023 GLOBAL PAYMENTS REPORT -** *On the cusp of the following payments era. Future Opportunities for Banks*
Size Of Report:	28 pages

McKinsey & Company

The key takeaways of this companion report include:

1. **The year 2023 has seen an inflexion point in banking on several factors.** Technology is a key narrative, and payments are doing particularly well.

   Still, the advice seems to be that with increased divergence on return on equity for many banks irrespective of size (mid-tier/smaller) they must consider:

McKinsey REPORT - click here

Title Of Report:	**2023 GLOBAL BANKING ANNUAL REVIEW 2023** *The Great Banking Transition*
Size Of Report:	48 pages

a) divesting payment assets – this is being played out in Greece and is now starting in Iberia to specialist payment players, and
b) create partnership models (the smaller you are, the more critical this is). One example cited is consumer digital payment processing conducted by payments specialists, which grew by over 50% between 2015 and 2022.

2. **The strongest forecast growth is in a region deemed the Indo-Crescent** (ref Page 24). This region is home to over half of the world's best-performing banks and is forecast to increase that share in the next few years. The divesting of (payment) assets pointed out above is less likely to play out in the short term in this region. The other strong geographic trend is Latin America.

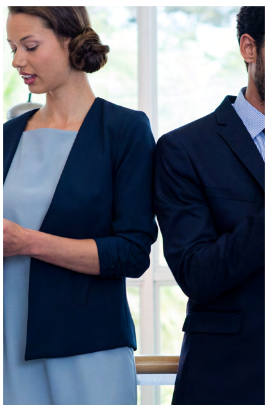
The reports provide:

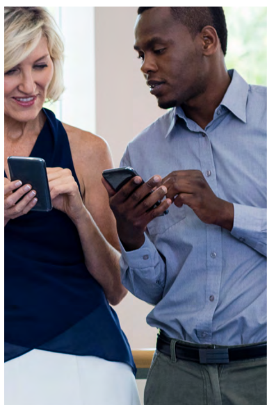
1) a strong nod to the importance of API enablement for Embedded Finance and
2) improved customer/merchant experiences driven by user experiences and advanced analytics (rules engines/notifications), and
3) the need to simplify complex operations.
Banks' distribution approaches are structurally changing owing to trends such as embedded finance. This change will continue, but it is evident in Europe and Asia (Oceania).

3. **For those with a more financial mindset, all the above points are backed up by copious data points and tables explaining why advisory services from McKinsey are steering banks in this direction.** Given the expected longer period when higher interest rate environments will exist this will create slow returns on equity from still fast-growing payment businesses. This strongly correlates with research from BCG.

4. **The report concludes by laying out five priorities that McKinsey believes could help institutions survive and thrive:**
   - Exploit technology and artificial intelligence, use talent better and improve the delivery of products and services.
   - Flex and unbundle the balance sheet through syndication, originate-to-syndicate and third-party balance sheets.
   - Scale or exit transaction businesses (such as payments) through mergers and acquisitions or by leveraging partners to help with exits.
   - Level up distribution to sell to customers and advise them directly and indirectly, and
   - Adapt to changing risks, including changing macro context, new regulatory requirements and risks associated with technology.







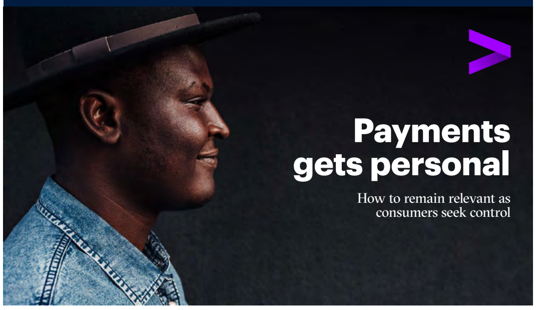
Packed with key information mirroring the views of other analysts and reports, the survey undertaken by Accenture highlights that the tempo of change has hastened where 94% of bank executives feel consumer behaviours, needs and desires are changing faster than they can deliver change in their core tech stacks.

The report highlights how consumers want to personalise their payment experiences, retain control and seek a seamless, frictionless shopping experience that will pave the way for biometrics.

Accenture calculates that banks that take a timid approach to change transformation to modernise, digitalise and personalise their offerings will lose up to 4.6% of revenue in the next three years! The most significant commercial impact of procrastination will be felt in North America, APAC and LatAm.

Accenture REPORT - click here

Title Of Report:	**PAYMENTS GET PERSONAL** *How to remain relevant as consumers seek control*
Size Of Report:	36 pages



THE REPORT HIGHLIGHTS:

- The future is digital, even for face-to-face transactions.
- Rapid adoption and frequency of alternative payment methods have skyrocketed, mainly through digital wallets. The adoption is skewed toward smaller to mid-size payment values, and the APAC and LatAM regions lead the adoption.
- The desire for responsible embedded finance solutions is where the money moat can exist to replace lost interchange as rapid instant payment use accelerates. Up to 62% of consumers believe this can replace credit cards as a financing option and 40% would take up embedded finance if offered by their banks rather than a fintech.
- The interest rate environment could see one-third of consumers switch from traditional banks that issue credit cards without providing personalised services. Half of this number will be left owing to banks' lack of modern functionality.
- Figures 6 and 7 on pages 10 and 11, respectively, offer a good breakdown by region of how consumers choose to pay for small and larger payments, respectively, split by in-person and online payments.
- Figure 12 on page 23 highlights banks' brand trust value, which buys a little time, but this competitive edge is strained and might not last much longer. Banks need to change now. Because of this brand trust, there is a window of opportunity for banks to launch super apps, and over half of consumers trust a bank super app. An example from South Africa is Avo from Nedbank.
- The report concludes with four strategies banks can take to deliver seamless experiences, which are:
  - Partner to scale, for example, Blik in Poland.
  - Simplicity and speed by focusing on deep insights and using tools like AI to contain cost and streamline experiences.
  - Niche focus on your offering.
  - Look beyond payments through embedded finance and managing a portfolio of APIs and partner services via a super app.

Capgemini

Cap Gemini typically releases its annual view early in the year.

This was their view for 2023, which will continue accelerating into 2024. According to their trends, Cap Gemini always does a great job prioritising the predicted business impact and adoption rate.

Financial Institutions will continue to seek to implement initiatives to modernise payment hubs, and ecosystem partnerships are generating enthusiasm for composable architectures to support personalisation, content delivery and on-demand integration of à la carte components into tech stacks, with banks and fintechs working to comply with ISO20022, a data-rich standard for exchanging payment information, with card tokenisation on track to be a robust data-security safeguard.

Capgemini REPORT - click here

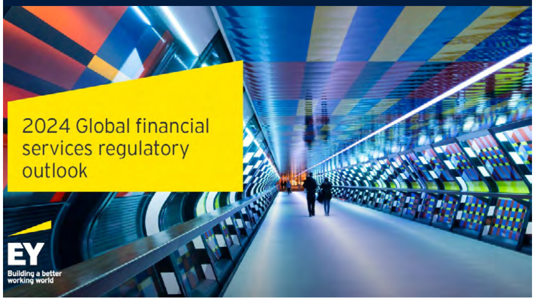
Title Of Report:	**2023 GLOBAL PAYMENTS REPORT**
Size Of Report:	34 pages

Cap Gemini has 10 payment themes, split across five broad categories, which it also ranks in a functional priority matrix (page 5).

CATEGORY	THEME	PRIORITY
Creating and enabling new values	Global adoption of ISO20022 opens doors to data monetisation	Significant Impact, Significant Adoption,
Changes in industry dynamics	An end-to-end ecosystem approach simplifies payment hub modernisation	Significant Impact, Significant Adoption,
Business Resilience	Paytech innovation & ecosystem partnerships focus on revamping SMB payments	Significant Impact, High Adoption,
Customer Centricity	Embedded Finance providers leverage customer data & actionable insights	Significant Impact, High Adoption,
Changes in industry dynamics	Real-time cross-border rails boosted at regional level	High Business Impact,
Changes in industry dynamics	Composable architecture creates competitive advantage efficiencies	High Adoption,
Customer Centricity	BNPL picks up momentum	High Business Impact,
New Horizons	Ecofriendly cards, digital payments etc all boost sustainability	High Adoption,
New Horizons	Tokenisation – a multipronged approach for scalable, secure card payment infrastructure	High Business Impact
Creating and enabling new values	Central banks gear up to pilot and implement CBDCs	High Adoption,

EY REPORT
- click here

Title Of Report:	**How Financial Firms can Prepare for the 2024 Regulatory Landscape**
Size Of Report:	28 pages



EY's report differs from most others and is worth a read for those in risk and compliance roles.

Whilst the topic might often seem dry, this report does a great job of summarising and explaining what is happening in the next few years. EY makes the case that some of the recent industry instability was caused by regulation being out of step with technology and the speed at which consumers can now react.

As such, the regulatory landscape needs to take some big leaps, and with a lot happening in payments and financial services, there are lots of regulatory and supervisory changes on the horizon that need to be acted on now, with essentially APAC/Australia region and Europe region leading the way on initial drafts.

The global economic environment does lead to 2024 bringing about asset quality, and at present, many countries are regulating data, technology and climate issues in ways that follow national agendas. This adds layers to complexity. The report highlights that a growing number of regulators are performing stress tests on ever larger numbers of banks and even on smaller banks. Some regions are considering putting clawback clauses for remuneration compensation into board and oversight contracts.

With regulators moving to data-driven supervision, enhancing their role as data hubs, they focus on improved data, transparency, access, interoperability, data harmonisation and standardisation. This will drive organisations to use (collaborative) tools to help prove they are delivering transparency and oversight.

As digitalisation becomes business as usual, some firms struggle to update legacy systems. The latest EY/IIF global risk management survey found that 94% of chief risk officers say they need "some" or "many" new skills and resources to meet the changing needs of the risk-management function, with data science and cyber topping the list of most desirable skills.

IN PAYMENTS, LOTS IS GOING ON:

- The EU PSD3 (Payment Service Directive) introduces a new regulation on a Framework for Financial Data Access (FiDA). FiDA introduces "open finance," the next stage of the evolution of open banking. It expands data access and usage beyond payment and transaction data to include other areas of financial activity.
- Several jurisdictions globally are developing open finance frameworks. In Southeast Asia, many initiatives are underway to link domestic payment systems and enable frictionless cross-border payments.

- Several markets have a digital identity initiative (India, Sweden, Norway, Denmark, Canada, etc), while countries that do not have a digital ID programme are considering one. Several markets are exploring AI and data acts, such as the European Commission AI Act issued in late 2023, giving companies 18 to 24 months to comply.
- Regulation will also cover buy-now-pay-later (BNPL) and embedded finance players who will face the same scrutiny as retail financial services players. Australia already regulates BNPL in this manner, and the UK is in the final stages of a long consultation.
- Instant Payments are driving financial crime, requiring instant monitoring and enhanced analysis. The problem area regulators will increasingly seek to improve is protecting consumers, especially from the growth in scams, from which bank transfers account for the majority. For example, Australians lost a record sum of more than US$2 billion in scams in 2021, and scams are made possible by various technologies. Linked to this, the EU “single rulebook” regulation provides guidelines for completing customer due diligence, disclosing identities of beneficial owners, etc, and this introduces the sixth Anti-Money Laundering directive, which includes national provisions on oversight, Financial Intelligence Units and information-sharing requirements and establishing the European Anti-Money Laundering Authority. This all points to the need for more sophisticated technology, such as AI, to support fraud detection.

Threading all the above, operational resilience is a key regulatory focus globally. There is a shift to view compliance through a consumer harm lens. In Australia, APRA has made operational resilience a heightened focus, whilst in Europe, firms must now comply with the EU’s Digital Operational Resilience Act (DORA) from 1 January 2025, making 2024 paramount for DORA readiness.

Deloitte.

This is a succinct paper that sets out a few themes.

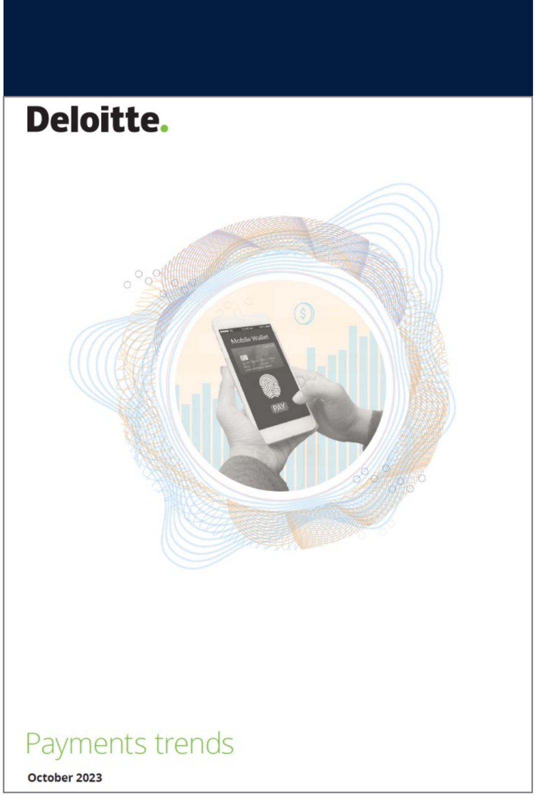
The underlying message is to act now, as consumer demand for change outpaces the internal timeline for changing legacy platforms.

- Digital adoption has seen unprecedented adoption rates, opening the door to innovations.
- Real-time payments technologies have developed a strong foothold amid increased demand and fast-tracked customer comfort.
- These converging trends have led us to a pivotal moment of change to bolster the foundations.

Mobile Payments are expected to grow at a CAGR of nearly 27% from 2025 to 2030, while biometrics will enable digital identity as a tool with a 63% CAGR from 2030!

Deloitte REPORT - click here

Title Of Report:	**Payments Trends (Oct 2023)**
Size Of Report:	12 pages



Real-time payments are growing 69% annually and will accelerate. However, the biggest challenge is not globally interoperable clearing, but the harder-to-recover real-time fraud and the risks of real-time bank runs driving faster insolvencies.

Payment organisations in this environment should ask three questions of themselves as it is fundamentally clear that platform modernisation is needed for future tech enablement.

Infrastructures must support iterative change, especially considering the ISO mandate:

1. What investments are needed to strengthen and modernise technology and operations infrastructure for continued innovation?

2. How can we mitigate fraud risk and losses as transaction speeds increase?

3. How do we ensure our workforces are adequately equipped to support these new payment methods?

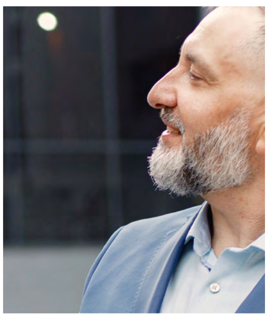
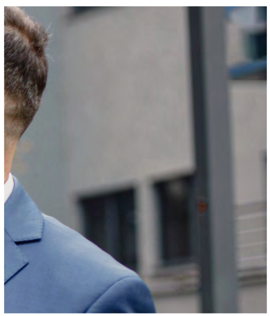
Next-gen solutions will be at the forefront of combatting new fraud and scam strategies. The increased speed of transactions and the popularity of peer-to-peer (P2P) payments and transfers have led to (in the USA) increasing fraud losses year to year, with 2022 ending in $1.76 billion in losses, double that of prior year losses reported to the Federal Trade Commission, and this fraud is driven by two primary forces: an increase in the adoption of P2P payments and an increase in the prevalence and sophistication of fraud schemes. Whilst fraud has often been financially compensated for, scams have not, but legislators are lining up to make banks take responsibility for acting against scam losses as well. Modern tools are needed for these modern times.

Financial institutions are at a crossroads. Table stakes are high, and there is a need to assess their technical infrastructure, fraud mitigation strategies and workforce management approach to support the trends that will take off.

Actions include:

- Increase partnerships to support fraud prevention.
- Push for digital identity standards.
- Invest in data management and API development to enable plug-and-play connectivity to new rails.
- Make changes to operations and organisational structures to emphasise upskilled functions.



J.P.Morgan

J.P. Morgan's proprietary anagram POWER+ framework outlines five mega-themes and 20 micro-themes and value-added services shaping the future of payments, which account for about $54 trillion in global payment flows.

These are:.

- Platforms
- Online
- Wallets
- Embedded
- Real-time

JP Morgan REPORT
- click here

Title Of Report:	**Payments are eating the world**
Size Of Report:	29 pages

The combination of most people owning smartphones, access to the Internet, and ISO 20022 as a global and open standard for payment messaging provides a common language for transacting with anyone, anywhere. This infrastructure fuels rapid growth, but the modernisation of payments and the value-added services surrounding the transaction will be crucial.

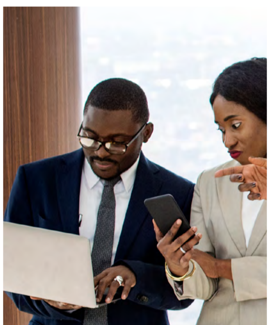
Platforms highlight the opportunities around super apps. The average person has 80 apps on their phone but only uses nine regularly.

Online highlights the shifts toward marketplaces, frictionless experiences that digital identity can help solve, the growth of the gig economy, and the change to the creator economy.

Wallets cover the widespread digital wallet growth seen today, but in the future, they will be increasingly related to cryptocurrency, stablecoins and CBDC.

Embedded Finance is a significant future growth area that is only just beginning. This section covers insights into Connected Cars—a wallet on four wheels with loyalty and rewards creating sticky in-car experiences—wearables, the Internet of Things (IoT), and the importance of biometrics and virtual worlds.

Real-time refers to the change to moving and settling payments in seconds. As the well-summed-up quote goes: "The last decade was about connecting people; this decade is about connecting platforms. That's why payments are going to win."





FIS REPORT - click here

Title Of Report:	**Global Payments Report 2023: Payments insights that drive growth.**
Size Of Report:	182 pages

While this is a considerable report compared to many, it is divided into regions, so you can quickly read the executive summary up to page 28 and then go to the region that most interests you.

The deep dive covers five regional views: Asia Pacific, Europe, Latin America, the Middle East and Africa, and North America. FIS has selected a few markets in each region for an even deeper trend analysis.

Today's consumers have high expectations, especially when making purchases. They want customised payment journeys that keep their data safe, speed up the checkout process and reward them for loyalty. In short, consumers expect nothing less than payment perfection. Payment experiences occur in a diverse global tapestry that defies one-size-fits-all solutions, making the payment landscape in every market unique.

The themes are identical to other predictions, though FIS data brings more of an acquirer angle. The themes set out are:

- Account-to-account (A2A) payments driven by real-time payment rails will disrupt with lower acceptance costs and are projected to grow at a 13% CAGR by 2026. With domestic regulatory support, A2A payments reduce merchant payment acceptance costs while improving cash flow with immediate funds available.
- Consumer use of credit cards remains strong, with a 4% CAGR forecast. However, credit sources are diversifying, so merchants should offer a broad range of options. Payments are increasing from credit-card-funded wallets, although bank accounts and debit cards rank ahead of credit cards as the fund source.
- Digital Wallets extend their omnichannel dominance with continued double-digit CAGE into 2026. APAC remains the outlier, but European and North American usage overtook credit cards in 2021 and 2022, respectively. Each market, however, has very distinct preferences for digital wallets.
- Cash, whilst not king, remains essential for merchants as even by 2026, globally at POS, cash could represent just under 10% of preferred payment methods. It's, therefore, more likely that physical cash will gradually give way to central bank digital currencies (CBDCs).
- Embedded Finance, like BNPL, is evolving to the next phase. Here, a diverse range of competing organisations exists. The outcome is more choice, flexibility, transparency for the customer and greater regulation.
- Cryptocurrency interest is rebounding and will emerge as a viable person-to-business payment option. By 2026, it could account for 0.5% of payment method choices.
- Global e-commerce will remain robust, with a 9% global CAGR, but there will be fast growth from emerging markets.

The themes are identical to other predictions, though FIS data brings more of an acquirer angle. The themes set out are:

- The APAC section covers a deeper dive into 14 markets: Australia, China, Hong Kong, India, Indonesia, Japan, Malaysia, New Zealand, The Philippines, Singapore, South Korea, Taiwan, Thailand and Vietnam. The leading five trends in this region:
  - Digital wallets are following China and growing fast. China has been a global pioneer.
  - E-commerce growth leading in emerging regional economies.
  - BNPL (Embedded Finance) is seeing significant gains in e-Commerce. Australia has been a global pioneer.
  - Cash continues to decline rapidly at PoS, mainly owing to QR code proliferation.
  - Real-time Payments drive A2A adoption, and APAC is a global leader in RTP.

- Europe section covers a deeper dive into 14 markets: Belgium, Denmark, Finland, France, Germany, Ireland, Italy, The Netherlands, Norway, Poland, Spain, Sweden, Turkey and the UK. The leading five trends in this region:
  - In e-commerce, alternative payment methods continue to grow in popularity.
  - Payment methods across the region vary greatly.
  - Cash continues to decline at PoS.
  - A2A payments are flourishing across Europe – Blik in Poland is a standout star.
  - The Nordics point toward successful regional cooperation models (real-time A2A).

- LatAm section covers a deeper dive into six markets: Argentina, Brazil, Chile, Colombia, Mexico and Peru. The main four trends in this region:
  - E-commerce growth is fuelled by mobile commerce.
  - A2A payments are seeing dramatic growth.
  - Credit Card dominance on the edge – losing share to APMs like A2A and digital wallets.
  - Mobile Payments surge as cash declines.

- The Middle East & Africa section delves into Nigeria, Saudi Arabia, South Africa and UAE markets. The main four trends in this region:
  - MEAs display a great migration to digital wallets.
  - A2A payments are rising in prominence across the region.
  - BNPL (Embedded Finance) is now the region's fastest-growing e-commerce payment method.
  - MEA sees a dramatic decline in cash at PoS.

- The North America section covers a deeper dive into Canada and the US markets. The main four trends in this region:
  - E-commerce growth slows.
  - A2A is poised for regional growth when FedNow becomes the 3rd RTP in the USA.
  - Wallets now represent the region's No 1 e-commerce payment method, displacing credit cards.
  - Credit card behaviour remains high, but behaviour shifts are evident.

CONCLUSION

As we conclude this review, it is clear that the payments industry is undergoing significant transformation, shaped by shifting regulatory landscapes, advancements in financial technology and evolving consumer preferences. The reports analysed in this review highlight the importance of adaptability, with institutions being urged to modernise payment infrastructures, leverage artificial intelligence and embrace embedded finance models to remain competitive.

While challenges such as compliance complexities and margin pressures persist, opportunities in real-time payments, digital wallets and data monetisation present avenues for growth. With the launch of this first annual payments review, we aim to equip readers with the knowledge to navigate and thrive in this rapidly changing environment. The future of payments is poised for significant innovation and growth, and staying informed will be crucial for all stakeholders involved.

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