Four disruptive payments trends to watch

BY JASON MUGFORD

The global payments industry is due for an overhaul. Last year was a record year for investment in the global FinTech sector. More capital was raised in the first half of 2018 than the record total in 2017[1] and the pace of change will continue to accelerate in 2019. You can thank the revolution happening right now in the payments industry to the innovative minds of agile disruptors, the heightened scrutiny of regulators and the evolving expectations of corporate customers.

The competitive landscape of the payments industry is a good omen of things to come. Financial institutions (FIs), payments processors, acquirers and merchants all stand to benefit from disruption.

Here are the four disruptive trends that will benefit the payments industry.

1. **Out in the open: the new world of open APIs.** The United Kingdom (U.K.) and Europe are leading the charge when it comes to open banking. The recent banking reforms in the U.K. encourage competitiveness in the sector by levelling the playing field. In Europe the second Payment Services Directive (PSD2) came into effect January 13, 2018 and the countdown is on for FIs to comply with external testing for PSD2 by March 14, 2019.

   The buck does not stop there with the Regulatory Technical Standards (RTS) coming into effect in September 2019 under PSD2, where all European banks must comply by putting in place open application programming interfaces (APIs) or updating their existing ones. FIs must allow their customers access to their banking data and give them the choice to decide who can access their data through open APIs, which is platform agnostic technology that allows software companies to have access to information from one another.

   APIs are not new, but they have generally been closed integrations between two partners with limited availability given to third parties. The FI segment in general will have better assurances of whom they are dealing with as a result of open banking. Service providers can reduce risk by being able to better assess credit and fraud risk, open credit to customers that warrant it and provide further products and services based on the information that open banking and blockchain make available.
2. **The shift towards real-time payments and blockchain.** Speed, transparency and accuracy are the key pain points experienced by businesses when transacting overseas. The experience of a seamless global payment transaction is still not a common one for many corporate clients frustrated with FIs. Global B2B (business to business) payments have some of the thinnest margins for service providers at 0.1 per cent despite accounting for $125 trillion in revenue, which is much higher than C2B (consumer to business) payments, according to reported SWIFT and McKinsey research[2].

   Real-time payments (RTP) is a financial transaction system able to send funds quicker for both businesses and consumers, and it will eventually become the standard for payments delivery. RTP can send funds immediately to the recipient and provides instant confirmation to the sender. Faster payments allow payors to better manage their cash flow. There still remains a major gap since the payor is asked to pre-fund their account for such a service, so they are paying upfront for a payment that happens in the future. To alleviate this gap, blockchain will play a significant role as a solution to revolutionize payments.

   One of the goals put forth by the Federal Reserve Bank's Faster Payments task force is to have near-instantaneous transactions where any organization, with a U.S. bank account should be able to use RTP by 2020. For third-party vendors, innovation without compliance is only half the story as banks are looking for partners that they can safely trust to deliver payments.
3. **A silver bullet: the possibilities of RegTech.** Regulatory Technology (RegTech) is a vast universe populated by technology companies working to automate anything from risk management and transaction monitoring to compliance and regulatory reporting. Deloitte reports 276 RegTech companies currently using big data analytics and real-time reporting to help businesses in the payments industry meet the demands of both domestic and international regulations[3].

   From a technology perspective, there are exciting things happening in the regulatory sector. Know your customer (KYC) is usually the hardest part of the customer experience to improve. But the increasing availability of open APIs and the greater access to information through RegTech providers means there are less painful ways to efficiently access the necessary information required to onboard a customer and reduce risk.
4. **The upper hand: payments apps reign in a nation of smartphone users.** In the era of the smartphone, payments apps are a natural progression to the order of things. Consumers have access to their banking online and open APIs will only increase the popularity and capabilities of payments apps and digital wallets, ultimately redefining how all of us experience mobile banking.

Accenture reports more consumers plan to use mobile wallets in 2020 and that nearly a quarter of consumers would give up their mobile banking apps for digital wallets that holds their payments information in one place[4]. There is appetite for new mobile payments; however, requirements between B2B and B2C mobile apps differ. The focus for disruptors will be honing in on specific functions to improve efficiency.

Technological changes are rapidly occurring, and the opportunities to access information and services that have traditionally been limited bode well for not only the customers but also for the providers that service them.

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1 FinTech Global, "2018 is already a record year for global FinTech investment", blog, July 11, 2018.
2 "Cross-Border Payments Need More Than Bank-FinTech Collaboration", *PYMTS.com,* December 14, 2018.
3 Deloitte, "RegTech Universe", Deloitte.com, January 15, 2019.
4 Accenture, "Driving the future of payment 10 mega trends", report, 2017.