Global payments transformation: where next?

The world of payments is evolving rapidly, with different regions progressing at different rates. Citi's Payments and Receivables Heads from around the globe share their views on how the payments transformation is being realised, how companies can benefit, and what this evolution means for treasurers.

The global payments landscape is undergoing a seismic shift. As Mark McNulty, Payments and Receivables Head for EMEA at Citi, observes: "Sometimes transformation is used as a bit of a buzzword – but you can't look at the payments landscape at the moment and not articulate what's happening as a transformation."

This transformation is multi-faceted. One is the shift towards real-time payments. As consumer expectations have evolved, people increasingly expect 24/7 availability and the ability to execute transactions in real-time, which is being matched by the proliferation of instant payment schemes around the world.

With the growth in ecommerce, meanwhile, more companies are moving to direct-to-consumer models which require them to accept multiple forms of payment. At the same time, developments such as the continuing adoption of digital wallets and the rise of QR codes and APIs are presenting new opportunities to move money quickly and conveniently, while transmitting data that supports rapid reconciliation.

A further aspect of this transformation is the development of the competitive landscape, as fintechs create products that are changing how payments are viewed by the entire ecosystem. "We used to be asked a lot about whether fintechs were a competitive threat to banks – less so now," says Sanjeev Jain, Payments and Receivables Head for APAC at Citi. "But in the last few years, the growth of fintechs has been very positive: many fintechs specialise in niche areas, and in user experience, which is a net positive for the financial services industry. I think partnership has become a bigger theme than competition."

Drivers of change

The arrival of the Covid-19 pandemic in 2020 was an important catalyst for the adoption of many of these developments. "Some of our clients, in markets where cheques are common, had cheques sitting in their offices with nobody able to deposit them," recalls Anupam Sinha, Citi's Payments and Receivables Head for NAM. "And they quickly realised that if they did not act, it would create massive working capital challenges for them."

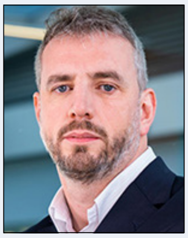
McNulty believes that, three major trends are driving the evolution of payments. "The first is technology, which is clearly driving the transformation – whether that is what is now made possible by more dynamic connectivity models such as APIs, cloud computing, machine learning and artificial intelligence. Other developments include how our customers' business models are evolving with more decentralised infrastructures, as well as the evolution of virtual reality."

The second driver, in McNulty's view, is the evolution of clients' needs, including the adoption of new business models in which companies are looking to directly sell to, and service, consumers and counterparties that have much more sophisticated expectations of user interfaces and client experiences.

"Lastly, regulation in the payment space is driving a huge amount of change," surmises McNulty. "Governments are looking to digitise their economies and create efficiencies, and often that can only be achieved at scale by upgrading the payment infrastructure. Financial inclusion is also a significant driver of regulatory change, especially across Africa, where we see more of a move towards interoperability between local

Payments in EMEA

Mark McNulty – Payments and Receivables Head for EMEA



How is the payments landscape in EMEA evolving?

The march towards instant payments and 24/7 continues. In Europe, while the SEPA Instant scheme has been operational since 2017, adoption has been limited across Payment Service Providers. To counteract this draft legislation is now looking to make adoption mandatory for all participants in the Eurozone, which will only increase the scale and usage of instant payments in Europe. Elsewhere in the region, countries like Egypt, Bulgaria and Tanzania are looking to roll out mandatory instant payment schemes.

Where mega trends are concerned, the rollout of ISO 20022 is a very significant transformation, particularly in Europe and Africa. For years, we have been on a legacy format that limits the messaging and information we can provide to our clients, so this upgrade is very important.

Openness is another trend – we are seeing more frameworks emerging around openness and open banking in countries across the region. UK and Europe have been there for some time even if adoption needs to scale, but we are now seeing open banking frameworks appearing in more countries, including in the UAE and Saudi Arabia.

Other developments include the arrival of intra-regional cross-border schemes, such as BUNA and AFAQ in the Middle East and Africa, the Pan-African Payment and Settlement System, and P27 in the Nordics. We are also seeing market infrastructures become more sophisticated in terms of the capabilities they are adding. At the same time, we are seeing digital native platform companies looking to expand their offerings and services into the financial services space.

What sort of developments do you expect to see in the coming year?

I think the drive to increase the scale and resilience of the overarching infrastructure continues to be a huge trend, alongside the growth of ecommerce. Digitisation and the reduction of cash continues as a trend, particularly in Africa and the Middle East, where cash continues to be widespread. It is not going to disappear tomorrow – but the evolution of digital wallets and instant payments will continue to drive the reduction of cash.

I also think we are going to see an increase in the use of APIs by our corporate clients. That dynamic connectivity enables different use cases that companies can take advantage of, from pre-validation to real-time reporting.

Open banking will continue to mature, especially in Europe, while we are likely to see continued exploration and use cases around digital assets and the underlying technologies. And following the move to ISO 20022, structured data is going to be an important topic.

closed loop ecosystems and the wider banking infrastructure." In Latin America and APAC, likewise, financial inclusion has proved to be a significant driver of change.

Developments like digital wallets can play a role in providing unbanked people with other payment options. "China for instance is dominated by Alipay and WeChat Pay," says Jain. "But even in most of the emerging markets in APAC, wallet penetration has increased significantly over the years, whereas card penetration in many markets is still in single digits."

Implications for corporate treasurers

So, what do these changes mean for corporate treasury teams? And how can businesses harness the latest innovations? "This change has huge implications for corporate treasurers – and for banks, who are supporting those treasurers," comments Kirestian. "Treasury has evolved from a corporate function to an area that is supporting the core business of the company on a real-time basis."

As such, he says, treasurers have had to shift from the old model, in which vendor payments might be sent on a weekly or monthly basis for processing – "and if something went wrong, it just meant a vendor was paid one day late." Today, in contrast, "when there is a Request to Pay transaction in a coffee shop, because someone is buying a coffee, that person cannot wait two minutes to complete the transaction. It must go through within seconds – and the whole reconciled process around that payment also needs to be completed in a matter of seconds."

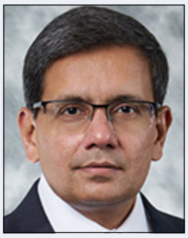
Where instant payments are concerned, McNulty believes, "some treasurers continue to deliberate whether instant payments offers a value added solution for their business model if they do not have a direct consumer nexus." But while the consumer nexus point is obviously a powerful use case, McNulty argues that B2B use cases are more and more prevalent. At the same time, he notes that instant payments come with the ability to drive more efficient reconciliation, as companies can access instant data in a way that was not previously possible.

Adapting to ecommerce: bring treasury in early

Where the rise of ecommerce and direct-to-consumer models is concerned, treasurers have a role to play in adapting their processes to accommodate high velocity, high volume instant payments. In practice, this means that treasurers may need to set up appropriate cash management structures and achieve greater control and reconciliation over the resulting flows.

Payments in APAC

Sanjeev Jain – Payments and Receivables Head for APAC



How is the payments landscape in APAC evolving?

Asia is front and centre of the global transformation taking place within the payments landscape. The region has leapfrogged from cash and paper-based payments to more digital forms of payments in many areas. On the ecommerce front, the banking system was previously lagging somewhat in terms of what end consumers were looking for, and this has given rise to a lot of alternative payment schemes to come into play to fill that void.

Over the last five years, most countries in the region have gone live with 24/7 low-value instant payments. At the same time, batch payments are starting to shift more and more towards real-time. Now that the foundational layer of true real-time banking is in place, value-added features are being added. In many cases, regulators are enabling this – but it's a two-way street, also driven by expectations from corporate clients and consumers. Banks, likewise, are advocating for this shift.

In many markets, QR codes have also become a big enabler, as they allow information to flow alongside payments. QR codes can be used to embed payments within an application – for example, if you make an insurance premium payment by scanning a QR code, the insurance company not only receives the payment, but also the full, rich information on what the payment was for and which policy it relates to. So, reconciliation can be completed right away.

Meanwhile, regulators are also looking at what's next. If you have moved low-value payments to 24/7, you could also do the same for ACH payments, which some markets have already done – India, for example, has already moved all forms of payment to 24/7. Other countries are also asking if they really need so many types of payments, such as Hong Kong which has decided to decommission ACH and move to instant payments.

What are the most important drivers and enablers of development?

Regulation is certainly one, and many countries in the region are learning from each other as they decide on next steps and further simplification. Other considerations are geopolitics, as well as concerns around data privacy – there has been a lot of focus on onshoring of data and platforms, which comes at a huge cost and effort from a bank's perspective.

At an industry level, the ISO 20022 migration is going to be very beneficial. The quality, consistency and standardisation of information flowing across banks will enable clients to see rich data and reconcile their payments. For regulators, this shift will also help to enforce anti-money laundering and sanctions around the world.

"For example, our Spring by Citi business is designed to capture the opportunity for our clients and offer a digital collection proposition," says McNulty. "This proposition will differentiate through its geographical scope, feature functionality and range of payment types, including leveraging instant payments, alternative payment methods and open banking to enable account-to-account collections."

But as Sinha notes, in many cases treasury may not be included early enough in the process, resulting in a sub-optimal infrastructure. As ecommerce scales up, treasury teams are then brought in and may need to enhance existing processes to ensure they meet the risk management framework and other treasury standards required by large organisations.

"So, one of the things we advise our clients is to get treasury involved in the process early on – have a treasury champion who understands the ecommerce evolution and can add value to the commercial team," Sinha explains. "Treasury should show value to their business counterparts early on in the process and be a critical part of the overall business growth as their organisation embraces ecommerce."

Where next?

While the payments transformation is progressing at different rates around the world, there are many common themes across the different regions. One key topic is the question of how best to facilitate cross-border instant payments, notes Jain.

"When a payment moves from cross-border to domestic rails, it's important to consider how the information flows, and what the regulators expect from screening and from the information you pass on," he says. "In some markets, for example, regulators want to make sure the bank that's receiving the money can figure out that it started as a cross-border payment. So, it's a conversation at a country-by-country level."

As progress continues, interoperability will be important as a means of avoiding fragmentation, in McNulty's opinion. "In Africa, for example, there is a big focus on interoperable switches, where you connect to ACH systems, instant payment systems and wallets, all through the same clearing switch. This simplifies the overall proposition and provides a better underlying client experience."

Moving forward, Sinha says technology will continue to be a major enabler of change. "Technology will remain significant in driving the evolution of the payments landscape," he says. At the same time, "the shift from payments being an 'experience' to payments being embedded in our clients' ecosystems will go a long way towards ensuring the world of tomorrow looks very different from what we've seen in the past."

Payments in North America

Anupam Sinha – Payments and Receivables Head for NAM

How would you describe the payments landscape in North America?

The landscape has historically been very paper-driven, but is rapidly moving towards more electronic payment methods, driven by initiatives like real-time payments. While North America has long relied on cheques, we are now seeing a significant change, with a year-over-year decline in the market. Cards, likewise, continue to be a predominant payment type here, but a rapid change is happening with things like real-time payments coming in, and the other peer-to-peer payment services. A lot of private sector initiatives are driving consumer flows and commerce.

From an ACH perspective, payment volumes continue to grow – but they are now growing at a slower pace than in the past. Some of that is driven by payroll flows moving away from ACH and going into real-time payments.

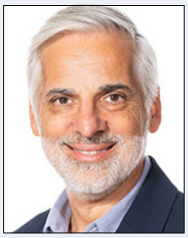
What do you see as the most significant developments and initiatives?

One of the most significant developments has been the launch and adoption of instant payments. But whereas many markets have mandated the adoption of instant payments, that kind of regulatory mandate does not exist in the US – which means not all banks are reachable. This has somewhat slowed down the adoption of instant payments, but we are seeing good progress.

What sort of developments do you expect to see in the coming year?

As our clients' business models evolve, I think we will see a significant shift of flows from the traditional B2B to B2C/C2B, which will drive flows towards real-time payment schemes. Another big change is that along with the existing TCH Real Time Payments scheme, the FedNow scheme is due to be launched later in the year, which will drive adoption and increase reachability. In Canada, meanwhile, the existing infrastructure is being replaced by real-time rails (RTR).

Payments in Latin America



Gabriel Kirestian – Payments and Receivables Head for LATAM

How would you describe the payments landscape in Latin America?

Latin America is one of the regions leading the implementation of new payment schemes, not least because of the region's progressive regulations regarding payments.

We already have 12 markets with instant payments schemes, which has been driven by regulators, and three others are due to be implemented this year. Among them we have success stories like the Pix instant payment scheme in Brazil, which was launched two years ago and is already processing close to 2.6 billion transactions per day. Argentina and Mexico are likewise big volume markets which have already implemented successful payment schemes.

But it's not just about instant payments. The big markets like Mexico, Brazil and Argentina not only have the basic component of an instant payments scheme, but also QR codes on top of that rail, and Request to Pay schemes that enable consumers to pay online or offline at any time of the day. Interoperability is also very important, and Argentina in particular offers the ability to do payments between virtual wallets and bank accounts in the same clearing system in a transparent way.

What sort of developments do you expect to see in the coming year?

One of the main drivers behind this transformation is the regulators trying to create more financial inclusion, particularly by improving interoperability. In Latin America, a high percentage of employment is in the informal economy, and a lot of people either don't want to open a bank account, or don't qualify to do so. Having these types of virtual accounts that can be regulated in a different way is a really critical role of governments and regulators.

Some countries are already discussing the implementation of Central Bank Digital Currencies (CBDCs), which could further increase financial inclusion by adding the unbanked population into the system and replacing cash, which is the instrument used by that portion of the population. Beyond that, I expect to see the integration of instant payment schemes into a cross-border payment structure or system that could take advantage of local schemes that are already there.

As the evolution of payments continues, consumer adoption will be key – and that requires trust from the end consumer. Regulators and governments in Latin America will need to play a role in addressing this in order to help drive adoption.