BLOG

The commercial payments journey in banking

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College basketball coach Michael Krzyzewski once said, “Growth creates complexity, which requires simplicity”. This sports analogy holds true for the payments business as it finds itself at the cusp of transformation. New inventions are helping commercial payments realise the significant growth opportunities that the changing dynamics of business globally present.

Commercial banks play a critical role in the payments system, and with growth in digital payments, their role has become even more important. With this rapid growth, payments are getting smarter, faster, and safer, further accelerated by new-age fintechs. Report Linker1 expects payments to grow 18% annually for the next three years, driven primarily by global e-commerce sales, which are forecast to reach USD6.5tn by 2023.

Cost-benefit optimisation is the main driver of investment in new inventions for the banking industry’s payments space. Technological advancements in payments would open new horizons for revenue generation and improve the ways in which payments are currently handled. This would bring the banking industry closer to matching or even exceeding customer expectations and demands. The pandemic has prompted a change in both consumer and business behaviour, challenging the status quo and forcing banks to devise alternative ways of doing things.

As we enter the next decade, we believe the following will be key considerations:

1. Payment security

As digital payment volumes increase, it is forecast that by 2023, close to 22bn devices would be used for digital payment. Protecting data privacy and integrity would, therefore, be of utmost importance.

The change in mindset of new-age, tech-savvy users has helped banks migrate easily to new and safer payment methods such as those using biometrics2. According to Visa, biometric authentication is gaining popularity, and more than 86% of its customers have agreed to using biometric security features to make payments. This is still in pilot phase but definitely a transformation to watch for.

2. API technology

Application programming interface (API) usage has transformed how payments are made. APIs have made it possible to move payments from the physical to the digital form, with consumers now making more payments through their smart phones than via any other mode of payment. Mobile payments for in-store purchases are expected reach over USD34bn by end-2020.

Customer experience has played a significant role in this transformation, with customers wanting to do more with their apps than just make payments. They desire to scrutinise bills and track their finances at their convenience. API technology has made it possible for commercial banks and other financial institutions to deliver what consumers want straight to their smart phones.

3. Blockchain and payments

The blockchain and cryptocurrency revolution will likely change the ecosystem of money movement, investments and financing. Barrier-less payments and instant transfers make the use of cryptocurrency attractive. A January 2020 report by the Bank for International Settlements indicates that more than 50 of the world's central banks are working on a token-based digital money system with a focus on public usage.

The groundwork is in place for more mainstream adoption of blockchain, digital assets, and cryptocurrencies, but it remains uncertain as to when cryptocurrencies will move to everyday usage for payments. Commercial banks will likely play an important role in the use of blockchain technology that so far lacks active use cases in mobile and digital payment. Blockchain-powered mobile payments can also support the use of tokens rather than payment credentials, making transactions more secure.

4. Mobile payments

Mobile payments are likely to see an exponential increase in the next five years3.Mordor Intelligence forecasts that they will grow 26.93% y/y. Results of a Merchant Savvy survey indicate the value of the mobile payments market at around USD3tn by 2024. Payments for in-store purchases through smart phones are expected to reach approximately 36%of all payments, translating into use by more than 1bn individuals globally by the end of this year.

Based on this trend and with the new Payment Services Directive 2 (PSD2) in place, more are likely to start using mobile payment apps not only for payments but also as a way of managing their finances in an optimal way. Commercial banks have clearly understood the importance of such apps and started building mobile payment applications so they could compete with other mobile payment option providers/fintechs.

Payments can no longer be viewed through the traditional lens and be dismissed as an undifferentiated product. Furthermore, modernising payments should no longer be just a strategic priority for banks but should be considered a genetic change necessary for their survival. Reconfiguring payment infrastructure so as to provide a seamless experience for users would enable banks to stay ahead of disruptive innovators that are often characterised by speed and agility.

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Sources:

1 https://www.reportlinker.com/p05881821/Cards-And-Payments-Global-Market-Opportunities-And-Strategies-To.html

3 https://www.merchantsavvy.co.uk/mobile-payment-stats-trends/

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