

PAYMENTS TOP TRENDS 2024

January 2024



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VIVEK SINGH

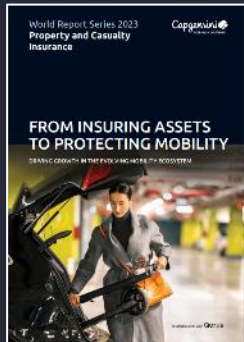
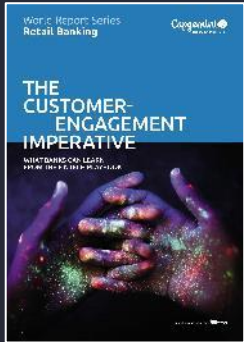
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TOP 10 TRENDS IN BANKING BY SUB-DOMAINS

Customer First

WEALTH MANAGEMENT

Increasingly influential **affluent segment** can boost the top line for wealth management firms

Fixed-income investing is back as a **safe and profitable** vehicle for wealth growth and stability

Generative AI-based client engagement enriches the **client experience**

Wealth management firms are capitalizing on the ongoing **intergenerational wealth transfer**

Wealth management firms are strategically **embedding social equity and inclusion** to drive business outcomes

After high-profile collapses, **rebuilding trust** is crucial for **digital assets'** next growth phase

Asset tokenization enables a more **efficient** financial system

Intelligent automation is a powerful **efficiency enabler** across the entire value chain

Digitalized client journeys are boosting productivity and streamlining operational costs

Reliable and traceable ESG metrics are now a must

Enterprise Management

RETAIL BANKING

Banks compete for **customer deposits** as they navigate through business turbulence

New-age players are switching gears from **hyper-growth** to **profits**

Banks pamper **affluent customers** with **personalized products** and services

Banks expand ESG data use beyond **compliance** to **strategic decision-making**

Digital operational resilience is a top priority as **cybersecurity threats** increase

Cost control is necessary to **hedge** against **economic volatility**

The next **wave of innovation** in cloud lies in **edge computing, sovereign cloud, and cloud marketplaces**

Banks explore **generative AI** to elevate **productivity**

Data is evolving from a proprietary asset to a **shared, open resource**

Decentralized finance continues to evolve; banks need to be ready for soon-to-come **regulatory frameworks**

Intelligent Industry

PAYMENTS

Real-time treasury empowers corporate clients' **decision-making** and **cash management capabilities**

Card alternatives – **pay by bank** and **BNPL** – are on the rise

Cloud-native composable platforms enable back-end reimagination

Digitalization will streamline **accounts payables/receivables processes**

Local and regional payments initiatives may challenge the dominance of **card schemes and interconnected payments networks**

Regulatory initiatives spark **payment innovation** and **robust security**

Instant payments offer a **potential efficiency boost**

Central banks embrace **CBDC** to maximize **financial inclusion**

Tokenization opens new frontiers for **value creation**

AI upside for payment services includes **productivity and client satisfaction**



PAYMENTS TOP TRENDS 2024 – PRIORITY MATRIX

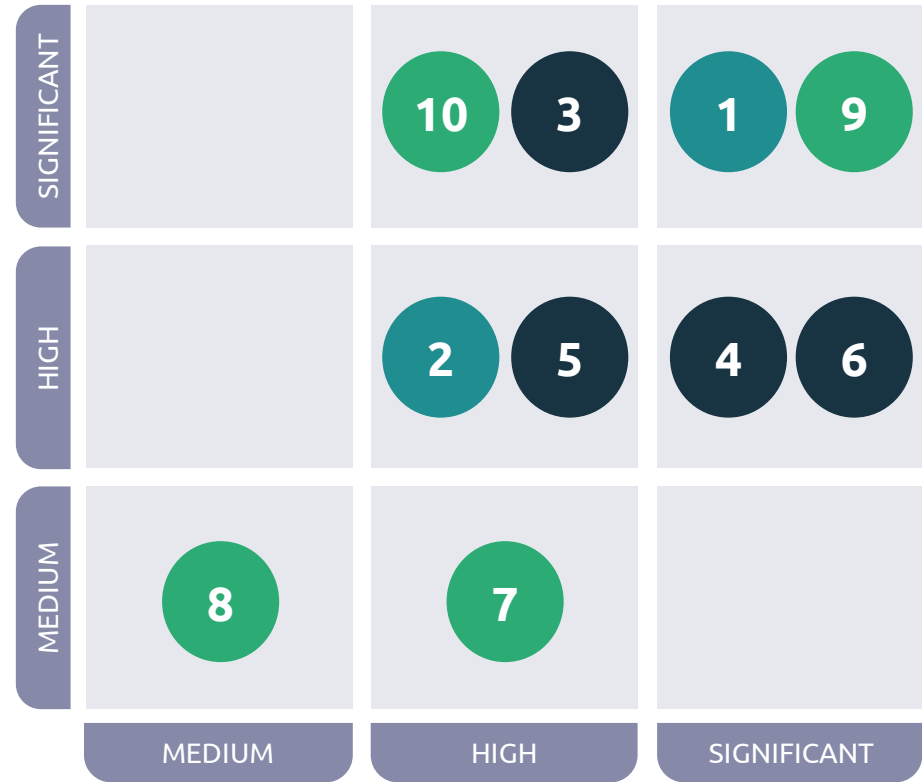
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Enterprise Management

Intelligent Industry

- 1 Real-time treasury empowers corporate clients' **decision-making** and **cash management capabilities**
- 2 Card alternatives – **pay by bank and BNPL** – are on the rise
- 3 **Cloud-native composable platforms** enable back-end reimagination
- 4 **Digitalization** will streamline **accounts payables/receivables processes**
- 5 **Local and regional payments initiatives** may challenge the dominance of **card schemes and interconnected payments networks**
- 6 Regulatory initiatives spark **payment innovation** and **robust security**
- 7 Instant payments offer a **potential efficiency boost**
- 8 Central banks embrace CBDC to maximize **financial inclusion**
- 9 Tokenization opens new frontiers for **value creation**
- 10 AI upside for payment services includes **productivity and client satisfaction**

Adoption priority 2024



Business impact 2024

The Priority Matrix presents Capgemini's view of 2024 trend prioritization in an operating environment considering:

- Softening inflation and high interest rates, coupled with stagflation trends
- Geopolitical instability
- Dynamic regulatory activity
- Intense competition and increased focus on customer centricity due to the impact of new-age players
- Operational cost overruns and high capital lock-in

- **Adoption priority** The criticality of adopting a 2024 trend to maximize value creation because of its sector importance.
- **Business impact** The effects of a trend on the sector's 2024 business as it relates to customer experience, operational excellence, regulatory compliance, or profitability. Circumstances will vary for each firm depending on business priorities, geographic location, and other factors. For more information, don't hesitate to contact us at payments@capgemini.com.



FROM 2023 TO 2024, WHAT HAS CHANGED AND WHAT HAS NOT?

TRENDS 2024	
1	Real-time treasury empowers corporate clients' decision-making and cash management capabilities
2	Card alternatives – pay by bank and BNPL – are on the rise
3	Cloud-native composable platforms enable back-end reimagination
4	Digitalization will streamline accounts payables/receivables processes
5	Local and regional payments initiatives may challenge the dominance of card schemes and interconnected payments networks
6	Regulatory initiatives spark payment innovation and robust security
7	Instant payments offer a potential efficiency boost
8	Central banks embrace CBDC to maximize financial inclusion
9	Tokenization opens new frontiers for value creation
10	AI upside for payment services includes productivity and client satisfaction

TRENDS 2023	
1	B2B Buy-Now-Pay-Later (BNPL) picks up momentum amid post-pandemic macroeconomics
2	Embedded finance providers leverage customer data and actionable insights to unlock new use cases
3	Global adoption of ISO 20022 opens doors to data monetization
4	Central banks gear up to pilot and implement CBDCs
5	Composable architecture creates competitive advantage efficiencies
6	Real-time cross-border payment rails will boost the speed and volume of regional trade
7	An end-to-end ecosystem approach simplifies payment hub modernization
8	PayTech innovation and ecosystem partnerships focus on revamping SMB payments
9	Tokenization – a multi-pronged approach for scalable and secure card payments infrastructure
10	Eco-friendly cards, digital payments, and cloud-based payments hubs will boost sustainability

New trends

- Real-time treasury will be a great tool for efficient cash management and intelligent decision-making
- Efficiency will be bolstered by the adoption of instant payments
- Use of AI and digitization will improve client satisfaction and streamline back-end processes
- Deglobalization will be a challenge for a global payment web

Trends evolution

- New payment methods including BNPL and pay by bank continue to gain acceptance among consumers
- CBDC continues to be an area of focus for central banks
- Composable architectures are gaining acceptance among payment firms for their efficiencies
- Transaction security continues to evolve with DeFi and tokenization

Deprioritized trends

- Embedded finance has been fully adopted to gain customer insights
- Real time cross border payments have been adopted by payment firms globally
- Payment firms have successfully executed partnerships with PayTechs for revamping SMB payments
- Payment firms prioritized sustainability with product offers



TOKENIZATION OPENS NEW FRONTIERS FOR VALUE CREATION

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Payment firms are considering tokenization and blockchain-based decentralized finance systems to enhance transaction security, while also exploring other applications

	10 3	1 9
	2 5	4 6
8	7	

46%
payment firms are in advance stages of tokenization



51%
payment firms exploring tokenization

Tokenization for security and compliance

DeFi will help move payment processing to a **more hybrid system**, enabling payment providers to be nimble and prepared to **adapt to changing transaction volumes** more efficiently

30%
corporates are in advance stages of tokenization



67%
corporates exploring tokenization

DISCOVER
Global Network

Launched a **cloud-based network tokenization platform** in Q4 2023. This platform offers companies a scalable and flexible token solution to enhance payment process security and efficiency.

Source: Capgemini Research Institute for Financial Services analysis, 2023

Empowered by **automated smart contracts**, payment processors can minimize errors and misdirected payments, and DeFi combined with tokenization is leading to **innovative use cases** such as **deposit tokens** and **programmable payments**.



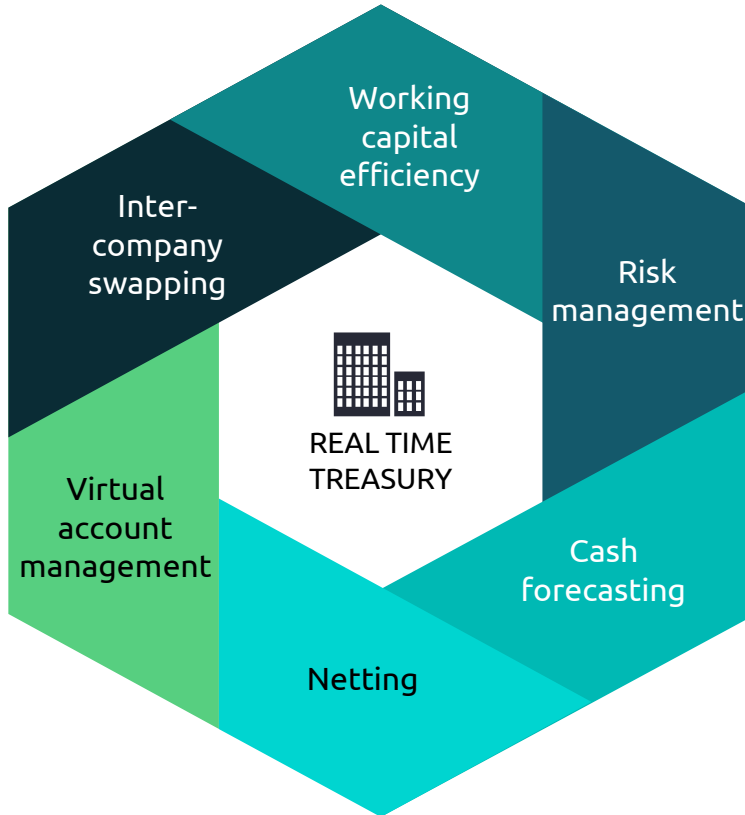
REAL-TIME TREASURY EMPOWERS CORPORATE CLIENTS' DECISION-MAKING AND CASH MANAGEMENT CAPABILITIES

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Banks and payment firms are reinventing treasury using advanced technologies, disrupting the industry with seamless, convenient, and swift transactions



Application programming interfaces (APIs) can be the **core enabler** for real-time treasury that helps corporate clients reach decisions more quickly and **optimize cash management**

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Partnered with FinLync, an aggregator of global banking APIs, to deliver **embedded real-time payments and cash management** in 2022 to provide corporate clients with instant access to real-time treasury

Source: Capgemini Research Institute for Financial Services analysis, 2023

Banks can **boost competitiveness** and growth by providing real-time treasury services, facilitating swift decision-making in corporate treasuries, **cash management, risk mitigation, and liquidity enhancement.**



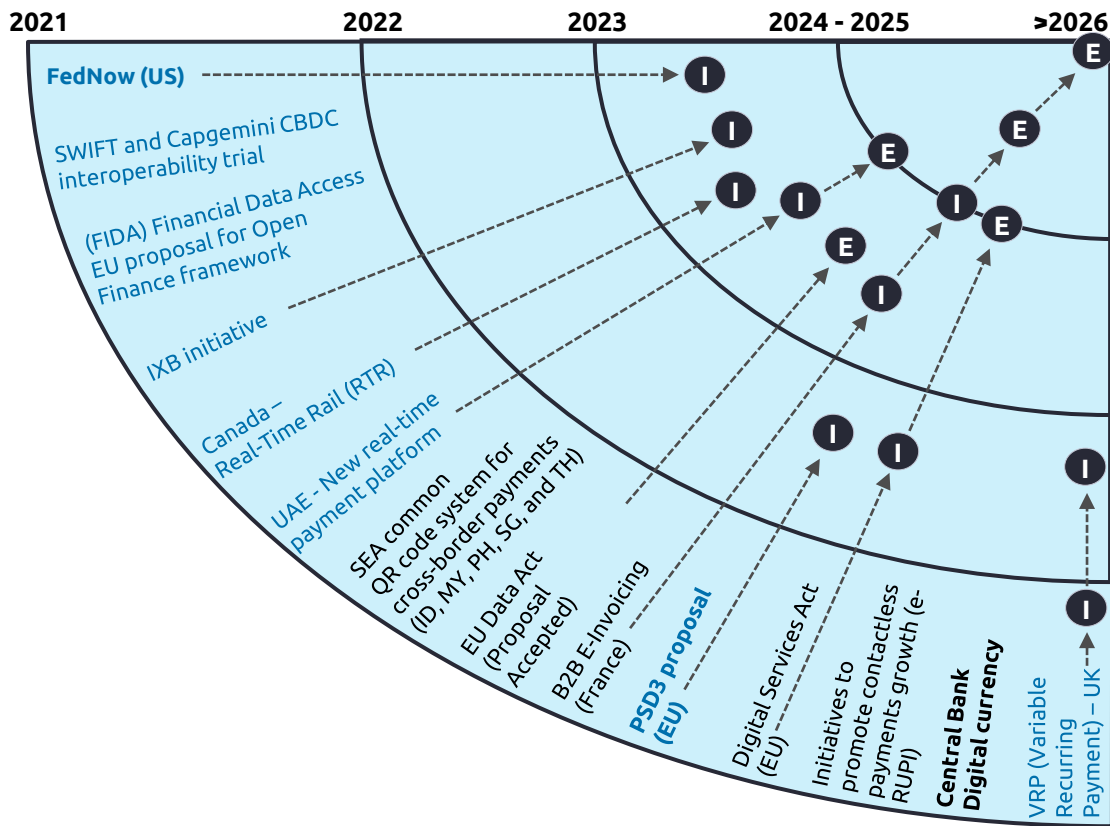
REGULATORY INITIATIVES SPARK PAYMENT INNOVATION AND ROBUST SECURITY

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Ongoing regulatory efforts are fostering collaboration and innovation among payment firms and service providers



- I** Intermediate implementation of the initiative/regulation
- E** Full implementation of the initiative/regulation
- ↑ Elapsed time

IXB – Immediate Cross-Border Payments
SEA – Southeast Asia

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	2	5	4	6
8	7			



Adopted Icon Solutions' low-code Icon Payments Framework (IPF) in September 2023 to ensure alignment with ISO 2022 messaging standards

Source: Capgemini Research Institute for Financial Services analysis, 2023

ISO 2022 messaging format migration, CBDC pilots, the FedNow instant payment service, Variable Recurring Payments (VRP) and similar initiatives are driving innovation in developed markets.



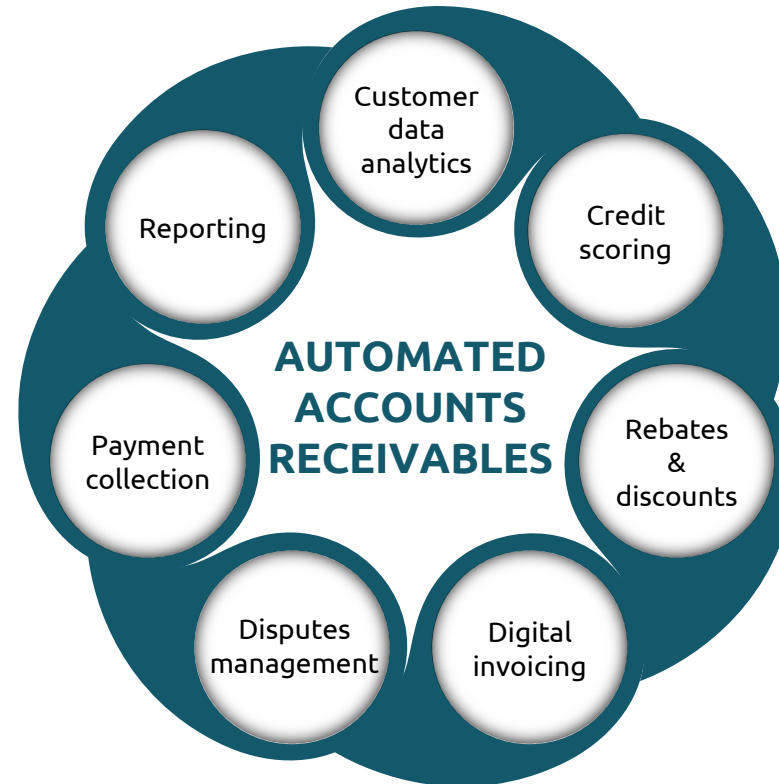
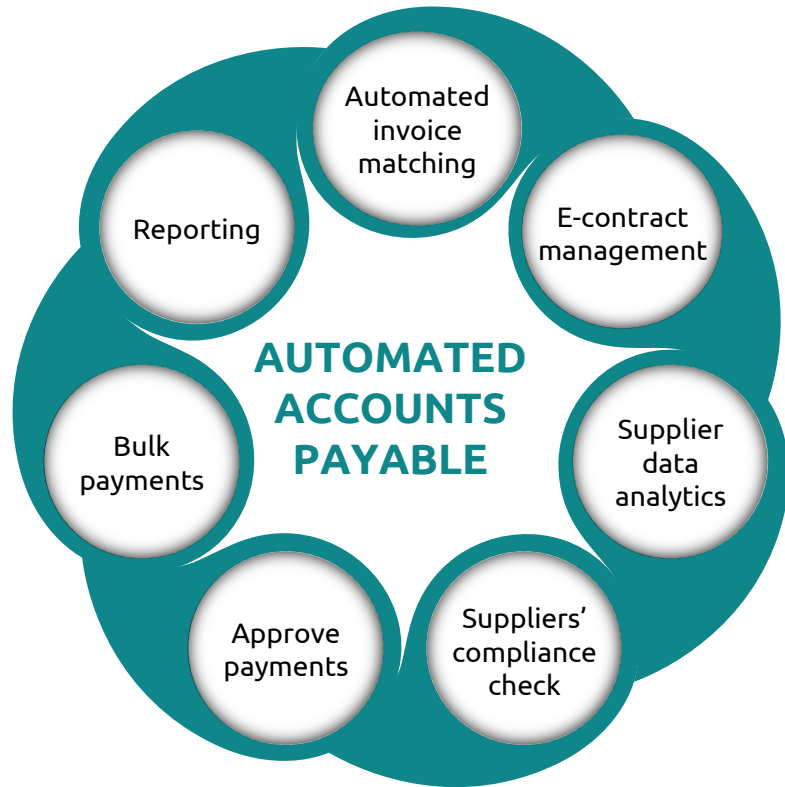
DIGITALIZATION WILL STREAMLINE ACCOUNTS PAYABLES/RECEIVABLES PROCESSES

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Wide-ranging digital transformation benefits are encouraging payment providers and their corporate clients to automate accounts payable and accounts receivable processes



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8	7			



Corporate clients leveraging Citibank's VAM platform can access **automated account receivables/payables**, among other features. In 2022, Citibank reported an 82% increase in virtual account balance growth thanks to 33% VAM platform adoption.

Source: Capgemini Research Institute for Financial Services analysis, 2023

Automated accounts solutions **expedite payments, provide cost savings**, and with ongoing innovation, anticipate increased enterprise demand for integration support to enhance payment capabilities during updates.



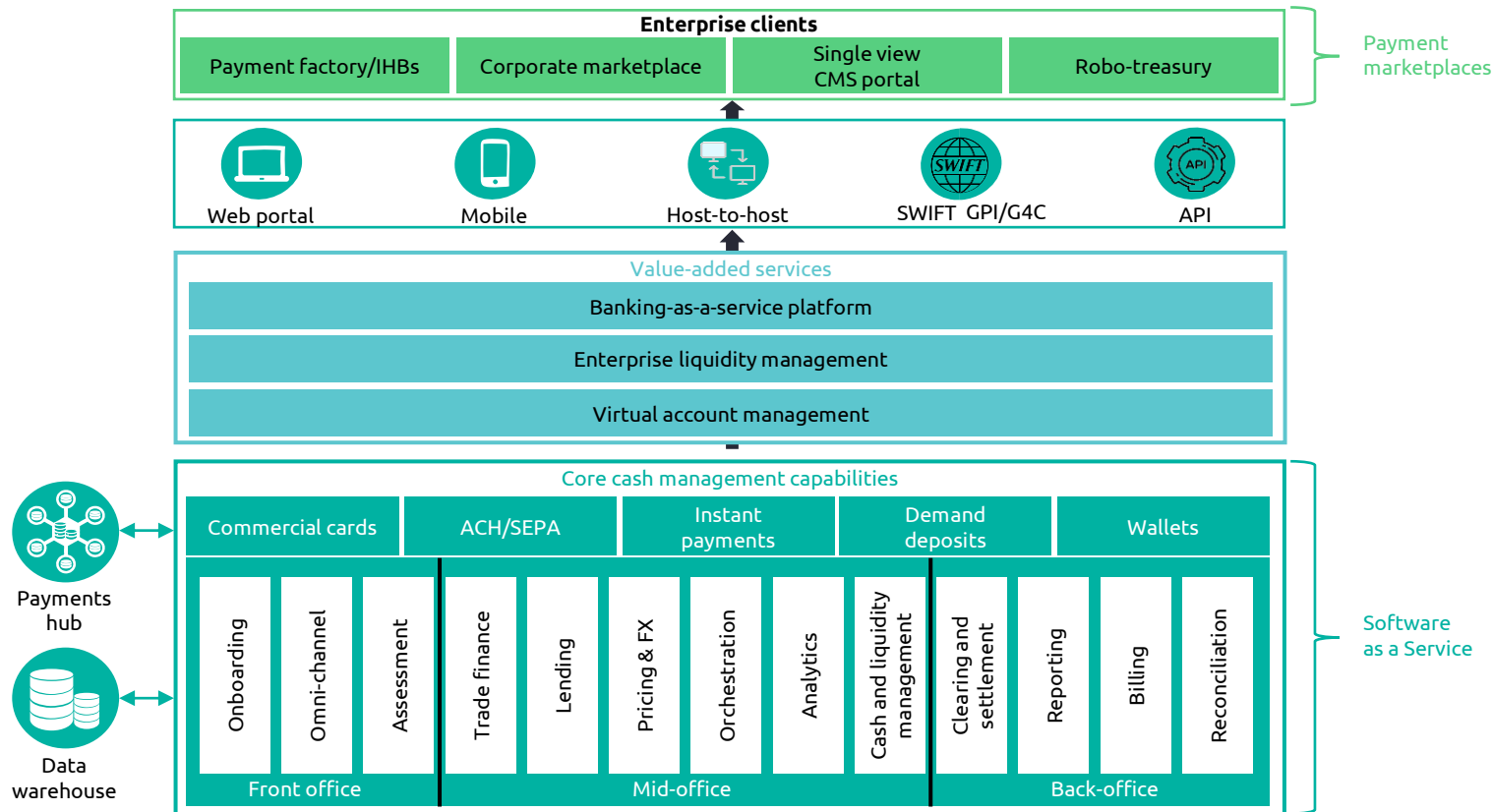
CLOUD-NATIVE COMPOSABLE PLATFORMS ENABLE BACK-END REIMAGINATION

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Banks and other financial institutions are realizing that composable payment hub architecture is cost-efficient and enables the agility necessary to innovate even when paired with legacy systems



	10	3	1	9
	2	5	4	6
8	7			



Expanded its Microsoft Azure partnership in 2022 to **migrate more than half of its applications onto Azure's cloud network**

Source: Capgemini Research Institute for Financial Services analysis, 2023

As cloud marketplaces and software-as-a-service offerings comply with **ISO 20022 standards**, payment providers will find the **additional impetus** to migrate to composable structures.



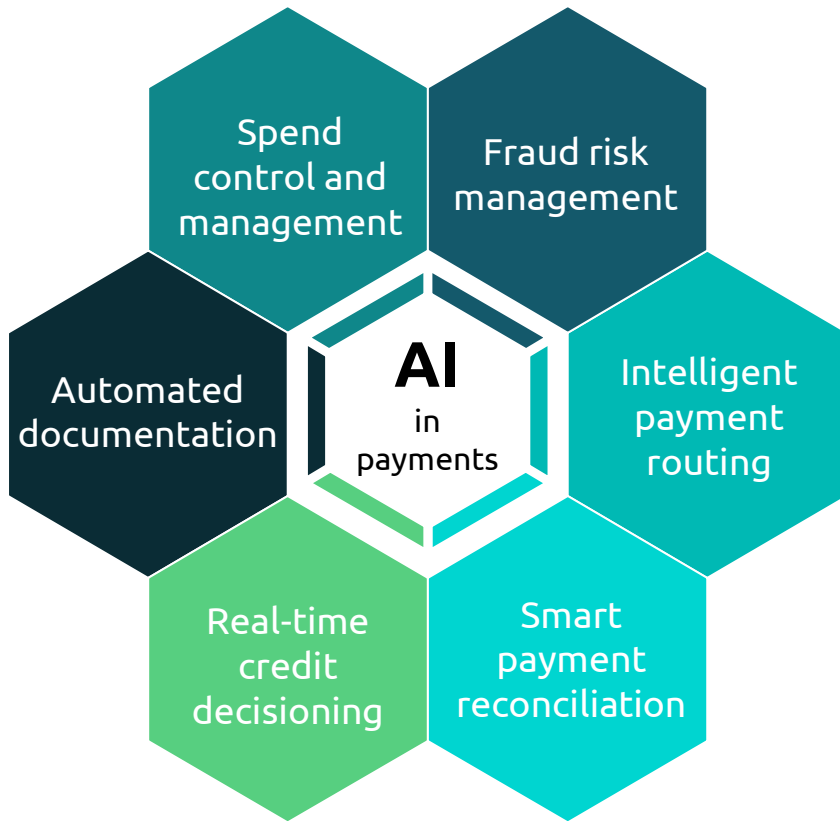
AI UPSIDE FOR PAYMENT SERVICES INCLUDES PRODUCTIVITY AND CLIENT SATISFACTION

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AI can help payment service providers boost customer personalization and grow revenue while reducing fraud and safety risks



Our 2023 World Payments Report survey shows **53%** of payment firms running multiple **AI pilots** in **cash management**, with half of the executives noting their firms are **automating processes** in the **cash management value chain**.

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Launched a new tool that uses **AI to help customers manage their spending**. The SAP Spend Control Tower shows customers their spending data and helps them find ways to save money and improve processes.

Source: Capgemini Research Institute for Financial Services analysis, 2023

As artificial intelligence becomes ingrained throughout the entire payments value chain, progress is observed in **fraud management, real-time transactions, customer experience, document management, and regulatory compliance**.



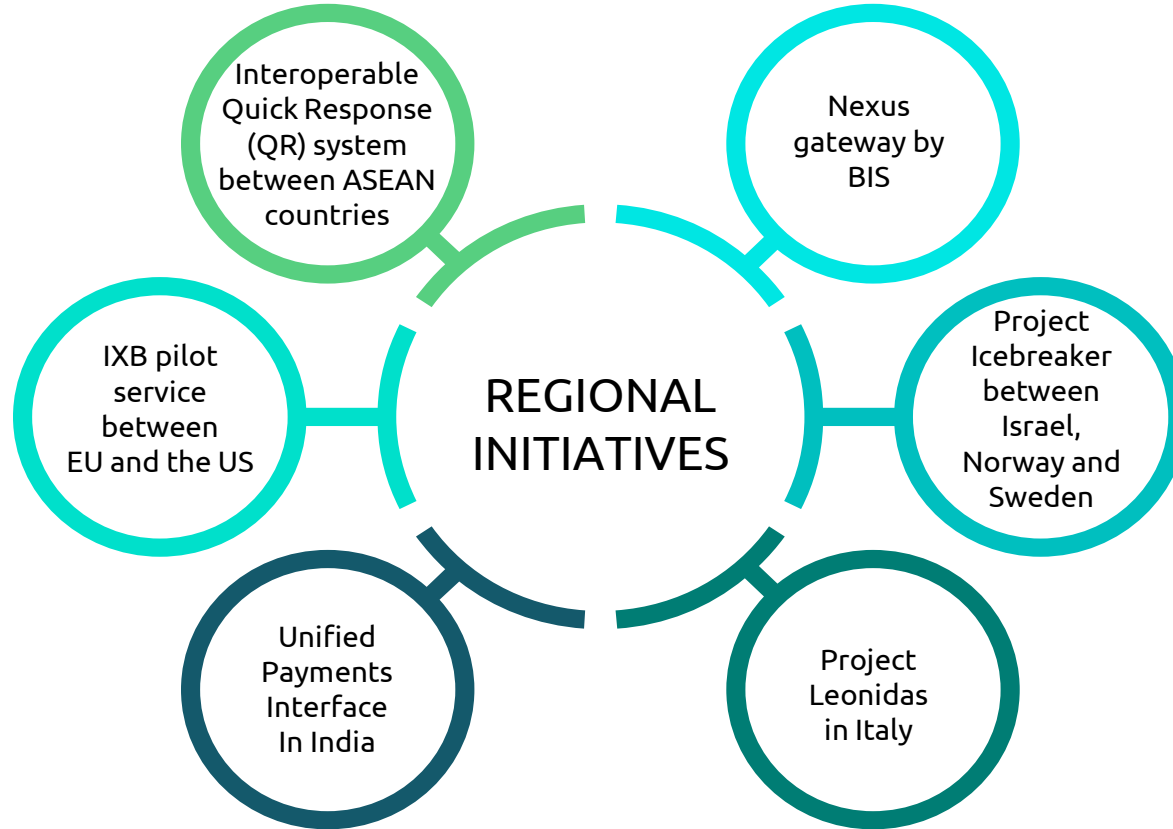
LOCAL AND REGIONAL PAYMENTS INITIATIVES MAY CHALLENGE THE DOMINANCE OF CARD SCHEMES AND INTERCONNECTED PAYMENTS NETWORKS

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Regional payments initiatives in silos can hinder the development of a compatible cross-border global network that can streamline international trade



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Built a network prototype, Nexus Gateway, to **standardize the multilateral linking of IP systems**. The pilot was conducted in 2021 to connect the systems of Europe, Malaysia, and Singapore.

Source: Capgemini Research Institute for Financial Services analysis, 2023

As payment initiatives grow to include more countries regionally, a common framework must develop to allow for **compatibility** between each of the **regional payments networks** to foster a seamless global system.



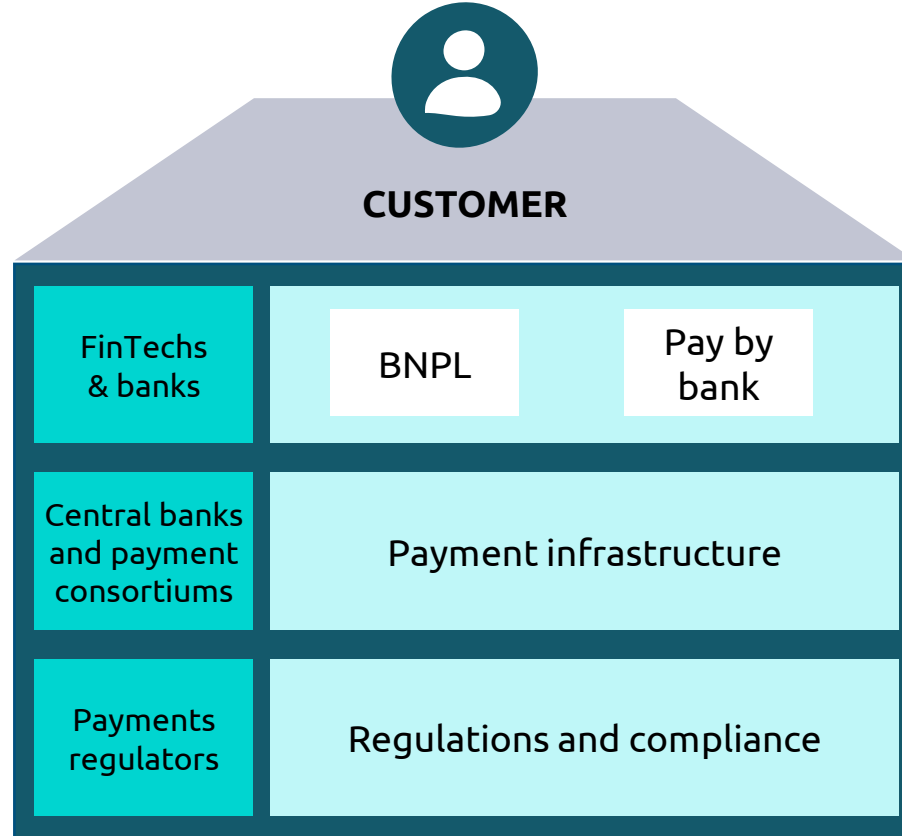
CARD ALTERNATIVES – PAY BY BANK AND BNPL – ARE ON THE RISE

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Traditional card payment leaders face challenges from emerging players using advanced technologies, disrupting their longstanding dominance with seamless, convenient, and swift transactions



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Partnered with Mastercard in 2023 to develop a **BNPL initiative** that allows SoFi members to split a purchase of USD 50 to USD 500 into four interest-free payments

Source: Capgemini Research Institute for Financial Services analysis, 2023

Increased use of alternative payments is set to **enhance transaction speed** and **convenience**. Account-to-account transfers, addressing fraud risks, drive card issuers to **incentivize customer retention** amid the growing popularity of alternatives.



INSTANT PAYMENTS OFFER A POTENTIAL EFFICIENCY BOOST

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Real-time payment networks operate 24/7 and provide numerous advantages, spanning from flexibility to enhanced security

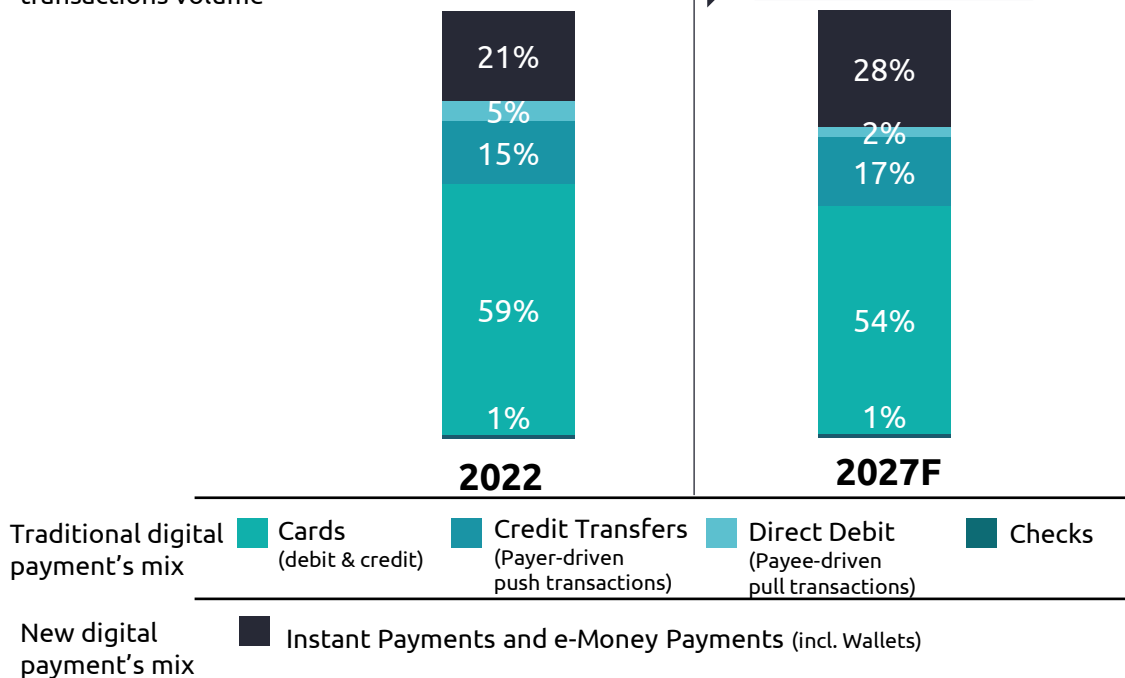
New payment adoption is on the rise

Total global non-cash transactions volume

1,143.9 billion

~2X

2,296.7 billion



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8	7			



Unveiled its **digital wallet solution** **wero** (we + euro) in October 2023. EPI aims to officially launch **wero** by mid-2024 in Belgium, France, and Germany, followed by the Netherlands.

Source: Capgemini Research Institute for Financial Services analysis, 2023

Instant payments are poised to transform the industry, **offering convenience, speed, security, and cost-efficiency** while **fostering innovation and competition** through enhanced transparency and **cross-border interoperability**.



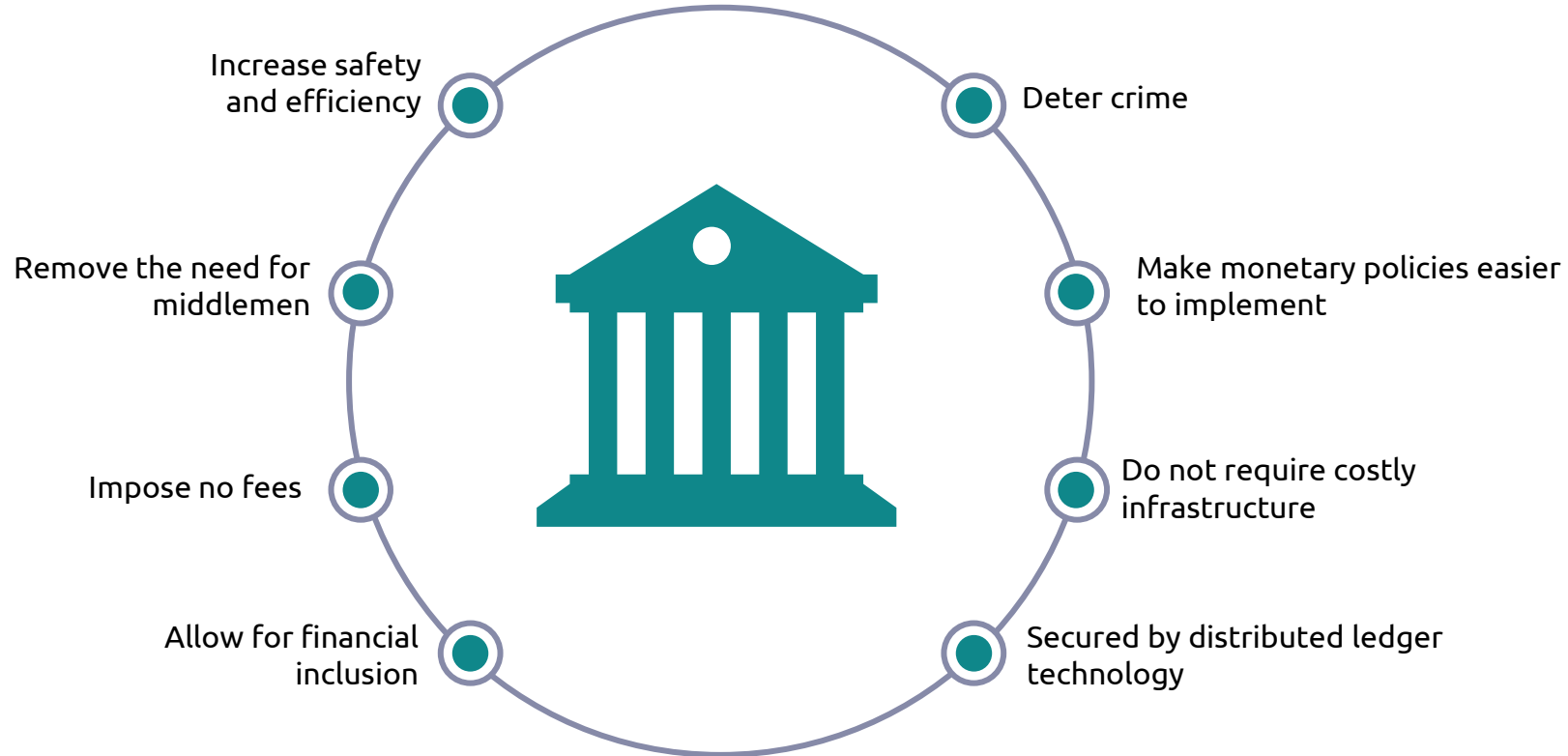
CENTRAL BANKS EMBRACE CBDC TO MAXIMIZE FINANCIAL INCLUSION

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Central banks globally are investing in a range of CBDC use cases and pilots



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BIS
 Concluded Project Icebreaker in 2023 in partnership with the central banks of Israel, Norway, and Sweden to demonstrate the efficacies of a **single-system cross-border CBDC**

Source: Capgemini Research Institute for Financial Services analysis, 2023

Widespread CBDC use may also spark **financial inclusion** of unbanked and underbanked populations by enabling **access to liquidity and credit** offered via traditional finance systems.

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