PAYMENTS
TOP TRENDS 2023
## TREND 10 TRENDS IN BANKING BY SUB-DOMAINS

### WEALTH MANAGEMENT
- ESG regulatory standards aim to curb corporate investment greenwashing
- Demand for outsourced chief investment officer services is on the rise
- Investor appetite for digital assets drives wealth industry capabilities beyond cryptocurrencies
- Amid volatility, investors seek new portfolio strategies, such as direct indexing
- Wealth management firms refocus on the mass-affluent segment
- Women increasingly control more wealth, yet many firms falter at winning their mindshare and share of wallet
- Evaluating cybersecurity for future readiness
- A digitalized core can bridge the gap between relationship managers’ expectations and WM firms’ automation capabilities
- The wealth management industry is consolidating to achieve scale
- Family offices showcase bespoke services while facing regulatory dynamics

### RETAIL BANKING
- Smart branches feature experiential banking and convenience to spark customer connection
- Incumbents scout for mature FinTechs to complement capabilities, boost bank profitability
- More banks commit to driving circular economy sustainability
- Banks step-up and own customer experience with embedded finance
- Financial wellness advice can help customers navigate the cost-of-living challenges
- CMOs leverage actionable data insights to guide customer-centricity
- Digital identity to unlock efficiency gains for banks
- Banks unlock value at scale by migrating workload to the cloud
- A boom in synthetic data will catalyze data ecosystem growth
- As banks explore decentralized finance, they remain cautious

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

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The matrix above presents Capgemini’s view of 2023 trend prioritization in an operating environment that includes:

- **Adoption priority** refers to the urgency of adopting a 2023 trend to maximize value creation because of its sector importance.
- **Business impact** represents a trend’s 2023 effect on the payments industry regarding customer experience (CX), operational excellence, regulatory compliance, or profitability.

Circumstances will vary for each firm depending on its business priorities, geographical location, and several other factors. For more information, don’t hesitate to contact us at payments@capgemini.com.

Source: Capgemini Research Institute for Financial Services, 2023.
### FROM 2022 TO 2023 WHAT HAS CHANGED AND WHAT NOT?

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<th>TRENDS 2023</th>
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<th>New trends</th>
<th>Trends evolution</th>
<th>Deprioritized trends</th>
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<tr>
<td>1  B2B Buy Now/Pay Later (BNPL) gains traction amid post-pandemic macroeconomics</td>
<td>1  Next-gen payments methods in Payments 4.X</td>
<td>• ISO 20022 gains rapid traction with a March 2023 deadline.</td>
<td>• Next-gen payment engine now include Buy-Now-Pay Later and embedded finance.</td>
<td>• Digital ID is gaining traction across all banking functions and now moves to retail banking trends</td>
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<td>2  Embedded finance providers leverage customer data and actionable insights to unlock new use cases</td>
<td>2  Digital ID infrastructure will be key</td>
<td>• To cope with rising demand, PSPs are enabling real-time cross-border payments</td>
<td>• Banks expanded open ecosystems to adopt composable architecture, modernize payment hub and bring innovations for SMBs.</td>
<td>• BigTech did not have the anticipated impact. PaaS, M&amp;A and consolidation slowed considerably due to 2022’s macroeconomic volatility.</td>
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<td>3  Global adoption of ISO 20022 facilitates data monetization</td>
<td>3  D2C and others empower SMBs and merchants</td>
<td>• Regulatory pressure is pushing the payments players to focuses on sustainability initiatives.</td>
<td>• Tokenization and CBDC brings security and functionality to payment methods</td>
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<td>10 Growing interest in CBDCs</td>
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**B2B BUY NOW/PAY LATER (BNPL) PICKS UP MOMENTUM AMID POST-PANDEMIC MACROECONOMICS**

**Collateral-free, short-term credit**
Offers businesses easy access to supply-chain finance. A seamless and completely digital credit risk assessment model offers added value.

**Versatile business models**
- **Model 1:** point-of-payment option embedded in the buyer’s digital bank account
- **Model 2:** offer an invoice financing option for suppliers requiring instant payment.

**Less regulated than B2C**
Underwriting different types of businesses are easy as regulations are not stringent yet.

**Advantage over other financing methods**
BNPL offers better terms. It is offered as revolving credit with a quick turnaround time.

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**B2B BNPL has a significant advantage over traditional credit methods**

*Source: Capgemini Research Institute for Financial Services, 2023*

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As more businesses turn to BNPL for a quick turnaround and revolving credit option, we anticipate a steep growth trajectory.
EMBEDDED FINANCE PROVIDERS LEVERAGE CUSTOMER DATA AND ACTIONABLE INSIGHTS TO UNLOCK NEW USE CASES

Embedded finance delivers valuable benefits to all stakeholders in the ecosystem

- Improves CX
- Streamlines access to services
- Boosts customer lifetime value
- Generates customer loyalty
- Surge in revenue per customer
- Drives growth

The rapid adoption of technologies such as AI-ML, 5G, distributed ledger technology, IoT, etc. will improve the chances of embedded finance providers to champion customer experience.

Source: Capgemini Research Institute for Financial Services, 2023
GLOBAL ADOPTION OF ISO 20022 OPENS DOORS TO DATA MONETIZATION

ISO 20022 can help FIs boost productivity & security while developing new data-based revenue streams

SWIFT introduced the ISO 20022 to standardize processing and exchange of financial information.

ISO 20022 will provide 360-degree customer views with rich and granular data to generate actionable insights and accurately predict customer behavior.

ISO 20022 benefits

- **Efficiency**: Improve efficiency and transparency of business processes
- **Automation**: Provides foundation for automation and STP payments
- **Compliance**: Enhanced fraud monitoring with streamlined compliance procedure
- **Interoperability**: Interoperable routing of different types of payments
- **Customer Experience**: Reduce complexity for payments initiators with scope for value-added services
- **Customer insights**: Refined payments insights from granular and structured data

Further, with ISO 20022 driven standardization interoperability of systems, technology, and platforms significantly improves. This will pave the way for industrialized proofs of concept for emerging technologies like DLT.

Source: Capgemini Research Institute for Financial Services, 2023
CENTRAL BANKS GEAR UP TO PILOT AND IMPLEMENT CBDCS

Critical factors considered by the central banks when ideating and implementing CBDC

**Centralized**
Control lies with central bank for circulation of CBDCs and for managing multiple physical nodes storing data

**DLT**
Operated and settled in peer-to-peer and decentralized manner (no intermediary)

**Direct**
Central bank holds direct responsibility for facilitation of CBDC payments

**Intermediated**
Payments are facilitated by intermediaries and central bank maintains only wholesale ledger

**Hybrid**
Intermediaries handle payments and central bank has a direct claim on CBDC

**Retail**
For use by the general public for purchase of goods and services

**Wholesale**
For use by financial institutions for bank-to-bank transfers and settlements

**Regionalization**
Enabling the use of CBDCs for domestic payments as well as for international payments using interoperable platforms (most commonly among central banks in a region)

Source: BIS; Capgemini Research Institute for Financial Services, 2023

CBDCs can enhance the financial resilience of the national fiat currency
Composable architecture creates competitive advantage efficiencies

Operations scale easily

Fast product rollout and go to market

Flexible component selection, customization

Operational costs decrease

Emerging technologies easily integrated, implemented

Source: Capgemini Research Institute for Financial Services, 2023

Composable architecture allows FIs to prioritize the development of products and digital journeys in the shortest time.
Real-time cross-border payment rails will boost speed and volume of regional trade

Benefits of real-time cross-border payments

- **Speed**: Instant settlement of cross-border payments within ~60 seconds
- **Liquidity**: No funds remain in transit, improves overall liquidity
- **Cost**: Reduced manual processes and next to no manual intervention for cost-effective payment solution
- **Transparency**: FX rates transparent before initiating the transaction and remain consistent across the entire process
- **Security**: Recipient’s details visible before initiating the transaction to reduce fraud

Cross-border real-time payments will reduce costs associated with transaction fees and currency exchange, resulting in improved margins for SMBs.

Source: Capgemini Research Institute for Financial Services, 2023
AN END-TO-END ECOSYSTEM APPROACH SIMPLIFIES PAYMENT HUB MODERNIZATION

Currently, banks and payments service providers are not able to prioritize IT budget for building new innovative services

- **26%** building new innovative services
- **74%** of bank executives do not earmark innovation within IT budgets
- **50%** regulatory compliance costs (AML, Data Privacy, PSD2, etc.)
- **14%** refurbishing payments infrastructure (Cloud, API, etc.)
- **7%** revamping mid- and back-office processes
- **2%** third-party solution/technology integration costs

Priority on running Payments

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Leverage broader SaaS ecosystem and composable architecture to future-proof payments hub

Enrich mid- and back-office capabilities with value-based third-party integrations like data analytics, automation, and cybersecurity

A composable payments hub boosts speed to market, agility, and innovation – resulting in superior CX and improved operational efficiencies
PAYTECH INNOVATION AND ECOSYSTEM PARTNERSHIPS
FOCUS ON REVAMPING SMB PAYMENTS

SMBs are seeking enhanced value-based services from banks and payments firms

1. Technology enhancement
   - Digital procure-to-pay cycle
   - Embedded payments solutions
   - Modular payments platforms
   - Seamless integration through one digital front end

2. FinTech collaboration
   - Value-added services such as cloud PoS, digital check clearing, and automated invoice processing
   - Bundled offerings and co-branded services
   - Agile responsiveness to changing demand

3. Regulatory openness
   - Automation and API enhancements for universal access
   - Payments information portability

4. Ecosystem partnerships
   - Seamless payments experience
   - Tailored offerings
   - Integrated and embedded solutions
   - Cash flow improvements
   - Quicker settlement

5. Rationalized costs
   - Reduced administration cost
   - Minimal fees and surcharges involving multi-party settlements and reconciliations
   - Faster realization of receivables

Source: Capgemini Research Institute for Financial Services, 2023

We foresee a more streamlined B2B cross-border payments as intermediary correspondent banking network is reduced and global multi-currency payment solutions emerge.
Tokenization – A Multi-Pronged Approach for Scalable and Secure Card Payments Infrastructure

Tokenization can unlock benefits for all stakeholders within the payments value chain:

- **Real-time issuance of new tokens makes the payments experience seamless**
- **Greater card data security without risk of sensitive information theft**
- **Implements collaboration between card issuers, banks, and FinTechs for innovation and launching new services**
- **Easier compliance with PCI DSS* payment security standards for merchants**
- **Reduces instances of fraud and increases authorization success rates, boosting payments**

*PCI DSS stands for Payment Card Industry Data Security Standard
Source: Capgemini Research Institute for Financial Services, 2023

Tokenization enriches CX by significantly reducing payment frauds and improving the transaction approval rates.
ECO-FRIENDLY CARD MATERIALS, DIGITAL PAYMENTS, AND CLOUD-BASED PAYMENTS HUBS WILL BOOST SUSTAINABILITY

Emerging innovative payment formats and digitalization will reduce associated environmental costs

Eco-friendly payment cards
- Using eco-friendly and recycled material for cards

Tap and pay
- Gained popularity during COVID-19 due to no-contact and non-cash feature
- In India, contactless payments’ contribution to total face-to-face transactions grew more than six times to 16% in December 2021

Real-time payments
- Non-cash and non-card based 24x7 and instant payment medium
- In 2021, Brazil recorded 8.7 billion real-time payments transactions and is expected to increase to 82.4 billion by 2026

Mobile wallets
- Utilizes existing cell phones, smartwatches for payments
- Will account for over half of e-commerce transactions by 2025

Innovative solutions
- Mastercard Carbon Calculator informs consumers about the environmental impact of their spending through CO₂ equivalents
- Visa Eco Benefits Bundle allows issuers to add sustainability-focused benefits

Switching to digital and cloud-based solutions can reduce carbon-emissions up to 95% - helping payment firms to incorporate sustainability in their value chain.

Sources: Capgemini Research Institute for Financial Services, 2023; India Tap and Pay, Brazil Real-time transaction, Digital wallets
### TOP TRENDS IN PAYMENTS 2023 – PRIORITY MATRIX

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The matrix above presents Capgemini’s view of 2023 trend prioritization in an operating environment that includes:

- Rising inflation and interest rates coupled with slowing growth
- Operational disruption due to geopolitical instability
- Dynamic regulation and compliance mandates
- High customer adoption of digital payments
- Increasing digital transformation initiatives of FIs
- Brisk competition and increased focus on customer centricity to hedge against advances from new-age players

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Source: Capgemini Research Institute for Financial Services, 2023.
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