The
FUTURE SERIES
2025

THE FUTURE OF PAYMENTS 2025 – DIGITAL, INSTANT, PROFITABLE?

A SIBOS SPECIAL EDITION

Finextra

THE FUTURE OF PAYMENTS 2025 – DIGITAL, INSTANT, PROFITABLE?

Finextra Research
77 Shaftesbury Avenue
London,
W1D 5DU
United Kingdom

Telephone
+44 (0)20 3100 3670

Email
contact@finextra.com

Web
www.finextra.com

CONTENTS

01
FOREWORD

An expert view from Swift

Jonathan Ehrenfeld
Head of Strategy, Swift

Connecting the future of payments

The global payments landscape is like a puzzle. Lots of different pieces that, when connected in the right way, add up to something much greater than the sum of its parts.

But this is no normal puzzle. With the global payments puzzle, you don't get all the pieces at once, and new pieces are constantly being added to the mix.

Looking at four major trends influencing global payments today, it's clear that this puzzle isn't getting any easier. But equally, putting the pieces together will be crucial for financial institutions, businesses, and consumers alike to thrive.

1. Accelerating innovation

We're living in a golden era of innovation driven by emerging technologies that present both remarkable opportunities and complex new challenges. Cloud computing and APIs are rapidly maturing, allowing financial institutions to streamline operations and offer more dynamic and personalised services. Distributed Ledger Technology (DLT) is introducing new ways of interacting with and managing data, fundamentally altering how we think about trust and transactions.

Asset tokenisation, atomic settlement, and programmability promise to enhance efficiency and reduce friction in transactions. Central Bank Digital Currencies (CBDCs) are no longer a distant concept, with over 130 central banks now actively exploring their potential. And Artificial Intelligence (AI) stands ready to revolutionise productivity and offer transformative possibilities beyond our current imagination.

While all this innovation is opening the door to many new opportunities, it also comes with new challenges for security, compliance, inclusion and integration that cannot be ignored.

2. Rising customer and regulatory expectations

Secondly, as technology evolves – not just in financial services, but in every aspect of our lives – so too do the expectations of regulators and customers for fast, convenient, affordable and safe services. Regulatory bodies are setting higher standards, demanding more efficient cross-border transactions while maintaining the highest levels of security and resilience. The G20 targets for enhancing the speed, transparency, cost and accessibility of cross-border payments underscore this global push. And it's not slowing down.

In Europe, the Instant Payments Regulation is driving the demand for cheaper, instant, and pre-validated payments. The Payment Services Directive is reshaping the retail payments landscape, while various markets are implementing regulations around crypto and tokenised assets. At the same time, regulators and investors alike are focusing on ESG (Environmental, Social, and Governance) more than ever.

Financial service providers that can adapt quickly to evolving expectations will have an advantage in a future where change is the only constant.

3. A proliferation of new players and networks

Technological advancements and changing customer expectations have fuelled an unprecedented level of competition in payments. Fintechs, neobanks, card schemes, and big tech companies are all moving into the cross-border account-to-account space. And DLT networks hosting tokenised assets and deposits are further contributing to this evolution. At the same time, central banks, market infrastructures and industry consortia are actively exploring interoperability initiatives at regional and global levels.

All this means that businesses and consumers have more choice than ever in how they transact across borders. But unless these systems can seamlessly interact, frictions and complexity in international transactions won't go away, and could even increase.

4. Changing trade and economic relationships

Finally, the geopolitical landscape is becoming more complex than ever, influencing global trade and economic relationships. Financial institutions are navigating an era marked by increased regionalisation, near-shoring, macroeconomic uncertainty, and slowing economic growth in many parts of the world. And with elections this year in more than 70 countries – home to nearly half the world's population – this could add further volatility to an already uncertain outlook.

Geopolitical tensions are also driving a debate around regional and bilateral alternative payment systems, contributing to the fragmentation of the global payments ecosystem.

Navigating a multi-model future

The future of payments is one where multiple networks, currencies, players, and technologies must not only coexist but compete and collaborate. In fact, this is already the case. And as we're seeing, while the complexity of keeping the global payments ecosystem connected is not getting any easier, it's becoming more important than ever to do so.

Payment providers around the world are in the same boat when it comes to the need to constantly adapt to meet rising expectations. And in this global payments puzzle, where the seamless, secure and efficient transfer of value is the goal, there can be no isolated islands. Collaboration is essential to enhancing transactions and keeping them interconnected.

To achieve this, the financial community must continue to work together across three key areas:

1. **Standardisation and interoperability**: Developing solutions that bridge different networks and systems will be vital for maintaining a seamless global payment experience. Collaboration among financial institutions, technology providers, and regulators will continue to be key.
2. **Security and resilience**: As the financial services ecosystem embraces new technologies, we must also continue to bolster our defences against emerging threats. Strengthening cybersecurity and ensuring operational resilience is paramount in protecting the integrity of the financial ecosystem.
3. **Inclusivity and accessibility**: Ensuring a financial system that serves diverse populations and meets varying needs is crucial. Developing that innovations benefit all stakeholders, from large corporations to small businesses and individuals, will help create a more equitable financial landscape.

Connecting the pieces

Instant and frictionless global payments require a team effort. No institution, organisation or country can do it alone. True to our nature as a globally inclusive infrastructure, connecting an ever-expanding financial ecosystem is a key focus for Swift. And the power of collaboration in keeping it connected in today's changing landscape has become even more apparent. It's this collaboration across the Swift community and beyond that is driving progress towards the G20's goals, enhancing experiences for end customers, and enabling international interoperability between new and existing systems, technologies, and forms of value.

But there's more to do. Only by embracing these changes and working together with a spirit of cooperation and commitment to interoperability, security and inclusivity, we can navigate this new era and ensure a future-proof financial ecosystem that serves the needs of all.

02 INTRODUCTION

The global payments landscape is in a period of rapid transformation. Technology advancements and innovations promise to continue to alter how payments are done, while consumer behaviours continue to evolve in tandem with this. Artificial intelligence (AI), tokenised assets, Central Bank Digital Currencies (CBDC), Blockchain, and even more pioneering technologies are shaking up the payments systems all in their own way.

Adding to this atmosphere of flux, is an developing regulatory framework which promises to alter this situation further. Regulators are facing an uphill battle attempting to legislate on emerging technologies while keeping consumers safe, and providing the best outcome for payment service providers (PSPs). As we move towards milestones like open finance and more rapid payments, there is a chance the payment ecosystem could look quite different within the next few years.

Under these growing pressures, global payments organisations will need to ensure that they are able to bend and adapt to the circumstance, or risk snapping. Never has it been more important for PSPs to collaborate with each other, and regulators, to ensure the best outcomes.

This report was produced with contributions from Accenture, Deloitte, EBA CLEARING, Finastra, FIS Global, Investec, J.P. Morgan, Oesterreichische Nationalbank, PPI AG, Swift, and Wise.

03

HOW WILL INSTANT PAYMENTS EVOLVE IN 2025?

Will the future of payments be digital, instant and profitable? What is for certain in 2025 is that the payments industry will increasingly become complex and multi-faceted due to the sheer number of players entering the market. New rails will be leveraged to settle a growing number of payments and new standards will be brought into play depending on the sector in which organisations are operating. In amongst all of this evolution, the real-time payments race is on.

However, an international payments network can only work efficiently with the right amount of friction – striking the balance between providing user friendly interfaces and preventing fraudsters from infiltrating processes is key.

For cash managers and treasurers worldwide, managing liquidity is first and foremost, so banks have remained sceptical about instant payments because of the higher relative levels of fraud that has been seen. To prevent this, banks and fintech firms should work together with partners outside of the financial sector to reduce fraud by sharing data and through the development of instant payments. In 2025, we will see this virtuous circle come full circle.

The remaining challenges for instant payments adoption

Bettina Rose, head of business development and product management payments, PPI AG – in conversation with Finextra – defined the major challenges for realising instant payments as having unfolded in what she described as "three dimensions: technical, procedural, and organisational."

Technical	Banks need to make sure that their IT platform will be ready for massive volumes of instant payment transactions. We predict that many transactions that are currently processed by card networks will return to the banks' payments infrastructure because they will be more cost-efficient than card payments.
Procedural	Certain procedures such as AML and fraud also need to be adapted to the real-time world. Another aspect that is often overlooked are the requirements for a liquidity management that must be operational around the clock to prevent temporal credit defaults.
Organisational	Changes need to be made as the EU Instant Payments Regulation requires banks to manually screen sanctions lists on every calendar day. Additional pressure is coming from the fact that banks and service providers are beginning to realise that there are urgently needed specialists for the digitisation of their respective business models.

When considering real-time payments, access to schemes are also a limiting factor because of the variety of governance and oversight coming to the fore. In April 2024, the EU's Instant Payments Regulation entered into force, with European banks and payments services providers (PSPs) having to comply with the first set of obligations by 9 January 2025. What this means is 2025 will be the first full year where all European banks and PSPs are mandated to offer instant euro transfers at the same cost as regular transfers, and for banks to receive instant credit transfers.

Erwin Kulk, head of service development and management, EBA CLEARING, believes that instant payment volumes will indeed "increase significantly over the next few years, but only if customers experience instant payments as convenient and safe." Moreover, Daniel Hellmann, director, risk advisory, payments, Deloitte, concluded that in regards to the Instant Payment Regulation, challenges include:

1. With IPR charges for SCT Inst will be capped to the charges for a SCT from 2025 onwards. SCT Inst will not be a premium service any more on which bank can earn, a cost-efficient operation of SCT Inst and SCT is a key challenge.
2. SCT Inst as a commodity in retail and increasing adoption by corporates have an impact on liquidity management processes in banks. Banks need to learn to balance available funds for the processing of SCT Inst.
3. Fraud is challenge. APPs scam are on the rise and banks need to ensure that payments are executed frictionlessly, ensuring proper customer security at the same time.

Another major challenge when attempting to implement instant payments, as Amelia Ruiz Heras, head of global solutions consulting, payments, Finastra, explained is the cost of maintaining real-time payment systems, especially for traditional banks that are burdened with legacy infrastructure. Ruiz Heras said that "payments modernisation is a crucial prerequisite to ensure banks can effectively facilitate seamless, highly available transactions, and those not upgrading their capabilities to reduce total cost of ownership and increase time to value may face significant challenges."

Annalisa Ludwinski, head of correspondent network management, Investec, highlighted that "banks are already facing increasing regulatory demands, and the pressure for additional scheme access—especially in foreign jurisdictions—increases the need for governance and controls. This can limit appetite to connect to all payment schemes, especially when there are domestic partners that provide excellent services offering almost real-time access at reasonable costs. Accessibility of schemes can also be an issue; not all instant payment schemes are open to foreign players."

Kevin Flood, director, FIS payments ecosystem strategy, corporate and international banking, FIS Global, added that part of the legacy technology challenge is that systems were built when batch and BACS payment methods were prevalent. This infrastructure was "combined with the richness in data available with an MX ISO 20022 message, the challenge in trying to adapt these systems to be able to process 24/7/365 and within 10 seconds, is a heavy ask.

"Often we see that combined with legacy technology, these solutions are often at the heart of the bank and their processing, unpicking and replacing these elements is a complex and tricky operation, but one that can be done by taking the challenge and breaking it down into the smallest part and start there – understanding and defining the outcome, allows for incremental steps to achieve it."

Before 2025, financial institutions will need to ensure they are speed up their digitisation processes so that instant payments can be implemented, agility and time to value is increased, new business opportunities through value-added services and innovation are pursued – at a reduced total cost of ownership.

The creation of real-time currency corridors, cross-border

In discussion with Samarth Bansal, general manager, Asia Pacific, Wise Platform, he explored the challenges associated with real-time payment adoption. Bansal explained that while outdated infrastructure and complex regulatory requirements continue to be problems to overcome, these are "even more pronounced when you think about cross-border payments."

He continued: "Banks were built to focus primarily on domestic use-cases. Later, with increasing globalisation, these banks stitched together international payments on top of this infrastructure. This legacy infrastructure makes international payments slow, difficult to track and expensive for customers. With the backdrop of changing customer expectations, evolving regulatory requirements and new innovations in the payment space, banks are faced with the need to allocate considerable resources to revamp this infrastructure."

Katja Lehr, managing director, EMEA payments solutions, J.P. Morgan Payments, had a similar view. While most "real-time payments systems are built for local transactions," examples where the "market has proven that we can interlink real-time payments systems" – such as between Singapore and India – prove that "local systems need to be harmonised in order to enable seamless cross-border real-time payments."

While EU standards are in place, other regions are at different stages of their instant payments infrastructure, but where real-time is a reality, the benefits are evident. Bansal said: “There is a long road ahead before instant cross-border payments will become the global standard. We can get there through cross-collaboration between banks and fintechs and by the industry aiming for achieving the same speed, costs, and convenience that domestic payments offer.”

Ruiz Heras foresaw that a lack of interoperability will become more of an issue in the near future. Connecting domestic and cross-border instant payment rails, while at the same time, ensuring multiple correspondent banking relationships, maintaining KYC requirements, and reducing friction is a colossal task.

> *“Institutions face diverse regulatory environments, time-zone differences, slow processing times, a lack of visibility and transparency in bank service fees, inconsistent payouts due to foreign exchange fluctuations, and growing sophistication in fraud practices, all adding to the operational complexity of cross-border payments. Banks must also align with regional and country-specific regulations to avoid penalties for compliance breaches. Inconsistencies in licensing requirements, poor adherence to data privacy laws and consumer protection rights, lapses in AML compliance, weak sanction screening and fraud measures can all result in loss of reputation, financial impact, and erosion of customer trust.”*
>
> **Ruiz Heras**

How can the cross-border instant payments challenge be resolved? Instant payments schemes such as the One Leg Out (OLO) Instant Credit Transfer (OCT Inst), dedicated to international instant credit transfers provides the practices needed to achieve interoperability for the provision of the Euro leg agreed by PSP within SEPA.

A OLO transaction is:

- a transaction in any possible currency under the condition that at least one of the two legs is denominated in EUR (Euro leg);
- an incoming or outgoing account-to-account-based credit transfer; and
- processed instantly on a 24/7/365 basis in the Euro leg.

Which EPC instant credit transfer payment scheme to use?

Note: apart of the currency in which the insant credit transfer itself is expressed, under the OCT Inst and SCT Inst schemes the payment account of the Payer and/or of the Payee can be in euro or in any other currency.

			To Payee with an account held in	
			SEPA	**non-SEPA**
For Euro → Euro trx (i.e. no currency conversion)	**From Payer with an account held in**	**SEPA**	SCT Inst	OCT Inst
		non-SEPA	OCT Inst	Other non-EPC scheme
For Euro → other currency trx or for other currency → Euro trx	**From Payer with an account held in**	**SEPA**	OCT Inst	OCT Inst
		non-SEPA	OCT Inst	Other non-EPC scheme

Source: European Central Bank

The role of confirmation of payee in fraud prevention

The increasing maturity of financial crime is also an ongoing obstacle that the entire world has to come to terms with, let alone the entire financial services industry. With the growth in the number of real-time payments in 2025, the sector can expect a surge in fraudulent transactions and/or false positives, both of which can have substantial impact on an organisation. Alongside real-time payments, real-time methods of preventing anti-money laundering and AI-powered transaction monitoring will need to be established so that the risks associated with instant payments can be mitigated.

PPI AG's Rose doubled down on this point and beyond technology, said that another key factor for reducing fraud is prioritising "data quality and data quantity. For fraud prevention software to work properly, it is paramount that the payments engine delivers all the relevant data to downstream systems and not just the records it needs to process a transaction. Routing data, for example, can prevent many false positives. Furthermore, ISO 20022 will make fraud prevention easier since it will be possible to add potential findings to the transaction before it is passed on to the next bank in line."

Ruiz Heras added that the UK's Confirmation of Payee (CoP) and the equivalent EU's SEPA Verification of Payee (VoP) can help to address this evolving issue by "confirming the identity of the recipient of the funds. By adding an extra layer of verification, they not only enhance the efficiency of payment processing but also bolster customer confidence in the banking system."

CoP and VoP proves to consumers and businesses that the funds they are sending are going to the right account by verifying the name on the recipient account is the same individual or business that they want to sent the funds to. In 2025, types of fraud such as account takeover (ATO) and authorised push payment (APP) will continue to spike, and Ruiz Heras explored how advanced technology can take the future of digital payments one step further.

For instance, phonetic fingerprinting "which leverages advanced phonetics and computational linguistics to match names, even when they're misspelled, formatted differently, or in multiple languages," Ruiz Heras explained. In turn, technology such as AI and even generative AI also helps financial institutions to manage fraud attempts. AI models also "consider factors like transaction history, behavioural patterns, and contextual information, and can learn from user behaviour patterns, identifying deviations that could indicate potential fraud."

Bansal spoke about other AI subsets such as machine learning in addition to large language models (LLMs) and their "crucial role in the industry's ability to scale efficiently and tackle fraud and other forms of financial crime. This is crucial as anti-fraud measures need to align with evolving consumer behaviour, so the use of technology for effective detection and prevention helps."

He continued: "Around a third of our global team, and nearly 25% of what we spend to run the company, is dedicated to fighting financial crime. This has been achieved by continuously enhancing our products and systems, particularly our ML models, to better detect fraudulent activity. Our models learn on an ongoing basis, and this technology will be vital in the ongoing fight against fraud."

However, as Kulk said, VoP is "not a silver bullet. It is one important element of the broader fraud-fighting toolset. In combination with other tools, including powerful individual anti-fraud capabilities and network-based insights on fraud pattern and anomalies, Verification of Payee can help PSPs take their fight against fraud to the next level and get ready for the new instant payments reality."

In Rose's view, one of the biggest issues with the payments sector pre-2024 was the fact that there was no "central service available that solves the 1:n problem, meaning that each bank must be able to confirm every payee with every bank in the EU. Another hurdle is the specification of the EU-specific confirmation of payee service, which is still not finalised. Despite being obliged to verify payees from 2025, banks and software providers are in risk of running out of time. Some technical details for bulk payments also need to be clarified."

According to Ludwinski, CoP is a crucial risk management tool for instant payments. "Asking the payee to cross-check the details and alert them to mismatches is positive, as it minimises the risk of errors and highlights potential fraud." However, as Ludwinski continued, the implementation can be complex.

"The rollout across the UK occurred in a phased manner, and a lack of public education caused some issues for smaller banks that were not involved in the initial launch, as consumers raised questions about why CoP couldn't be facilitated due to different and sometimes misleading communications from the CoP community. As SEPA VoP rolls out next year, standardising communications where a check cannot be completed due to not all banks being VoP compliant at the initial launch would be very beneficial, so as not to cause consumer concerns or confusion."

The real-time road to 2025: what's next?

Rose summarised the events of 2024 and stated that the G20, in prioritising cross-border payments, has ensured that three initiatives are supercharged to spearhead an instant payments revolution:

1. Payment system interoperability and extension
2. Legal, regulatory, and supervisory frameworks, and
3. Cross-border exchange and message standards.

She went on to say that: "Anything that contributes to the automation of payment processes in the future will make global real-time payments more attractive. Banks need to further develop their knowledge of how their customer base operates and how they can provide value-added services. For example, banks can leverage the data they collect in payments transactions to act as an asset broker for customer identification and authorisation."

The future, as Rose clarified, is in Request to Pay (RtP), which involves a payee initiating a request for a specific transaction from a payer. Rose said: "With RtP, it is possible to link invoices and payment transactions on the bank account which in turn allows for easier reconciliation or additional financial offerings such as Supply Chain Finance or Buy Now, Pay Later."

If payments are able to be interoperable, adhere to regulation and leverage digital cross-border message standards like ISO 20022, financial institutions will truly be able to keep pace with innovation, fraud prevention and customer service. Ruiz Heras explained that "having a common language and more structured, richer data, facilitates interoperability and ensures seamless transactions between banks and corporates globally. Many cross-border instant payments schemes are utilising ISO 20022, and we can expect more innovation and use cases to come, such as around overlay services like SEPA Request-to-Pay (SRTP) in Europe or Request for Payment (RFP) in the US."

04

WHAT WILL HAPPEN TO CORRESPONDENT BANKING AND CROSS BORDER PAYMENTS IN 2025?

The decline in the number of correspondent banking relationships globally has been widely noted, leaving many communities who rely on it for cross-border payments without many other choices.

This is in part because of a heightened focus on high-risk jurisdictions, which is known as de-risking, intended to protect financial institutions from higher legal and regulatory in certain jurisdictions.

However, this development has raised greater concerns about fraud, money laundering, transactions being moved to alternative channels.

Maintaining the balance of modernisation and compliance

The US Treasury published a de-risking strategy in April 2023, listing recommendations for AML supervisors, banking regulators, and financial institutions to follow updated guidelines, and for the use of digital identity solutions that can protect customer data.

Samarth Bansal, general manager at Wise Platform in the Asia Pacific region, stated that banks need to modernise their payments infrastructure to meet the increasing demand of consumers and SMEs, however, modernisation is not a simple and straightforward process. There are regulatory and compliance hurdles to overcome, along with the complexities of various payment schemes and systems in various countries.

“To overcome these hurdles, many banks are connecting to trusted payments infrastructure providers that complement their existing correspondent banking relationships. These providers can integrate seamlessly into existing infrastructure and connect directly to the SWIFT network, thereby streamlining correspondent banking operations, speeding up delivery times and bringing down operating costs,” said Bansal.

Kevin Flood, director of FIS payments ecosystem strategy, corporate and international banking at FIS Global, explained that there needs to be a balancing act in place to maintain regulatory compliance whilst accessing global financial systems:

“By implementing combinations of de-risking strategies like KYC/KYCC (know your customers customer), transaction monitoring, Enhanced Due Diligence (EDD) and utilising technology such as regtech (regulatory technology) correspondent banks can work to reduce their exposure to financial crime, sanctions violations and regulatory penalties while maintaining essential cross border relationships. Leveraging these strategies allow banks to protect reputations, meeting regulatory demand and remaining able to facilitate global financial flows responsibly.”

Collaboration is vital to boost cross-border payments

Shifts in the market will require new collaborative strategies and innovative solutions in the cross-border payments sector.

Gayathri Vasudev, head of cross-border payments at J.P. Morgan Payments, stated that there needs to be a collaborative effort to make cross-border payments seamless. While there have been developments in transparency around payments fees, making payment status accessible, and connecting real-time payments, there is still more work to be done.

She expounded: “Given the complexity of the cross-border payments space, no single organisation or regulator alone can drive change. There will continue to be numerous competing initiatives and challenges to prioritise between them. This will enable the industry to look beyond legacy solutions and adopt new ways of growth. A public-private cooperation to streamline regulations and speeding adoption of technology, and a closer collaboration between fintechs and legacy players will help to truly deliver a seamless cross border experience.”

According to J.P. Morgan Payments, international payments are expected to increase 5% per year until 2027, as underserved and underbanked populations gain access to digital financial tools. Real-time payments are estimated to make $173 billion by 2026, according to the Centre for Economics and Business Research. Many countries have real-time payments systems in place, or an automated settlement system controlled by the central bank.

> *"As card providers look to diversify and build out their payments businesses, I see a move towards more institutions partnering with them to pay out in local currencies. Their ability to utilise their network and technology is making this model appealing to small and challenger banks, as the costs and margins are low and easy to pass on to the consumer. I expect this business will grow, potentially changing the way cross-border payments are initiated and facilitated with the card rails taking a slice of the volume. This could potentially lead to concentration risk with a few global players."*
>
> **Annalisa Ludwinski, Head of Correspondent Network Management at Investec**

Cross-border payments are expected to support the growth of SMEs in Latin America, where digital solutions can bridge underserved payments gaps. Currently, SMEs in Latin America struggle to transfer funds internationally, but as more small businesses adopt digital payment apps, especially in technology hubs like Mexico, Colombia, and Brazil, moving money internationally is becoming easier.

New trends in cross-border payments

There is potential for blockchain to revolutionise cross-border payments networks, with private blockchains operating between systems that can permit digital international payments at a lower cost and through various currencies. CBDCs are in development in multiple countries, such as Singapore and the UK.

Flood highlighted that regtech will have a significant role in the future of correspondent banking and cross-border payments, by using new technologies to meet compliance requirements and manage pressure placed on financial institutions to maintain regulatory standards.

"These solutions are able to leverage AI and machine learning (ML) on-top of big data to augment organisations with activities such as automation of compliance processes, real time monitoring, regulatory reporting, KYC and AML solutions, and fraud detection and prevention. The benefits available to companies that can consume and deploy these types of services and technology range from efficiency gains and cost reduction, improved accuracy, faster, and more targeted responses to regulatory changes, increased risk management, to enhanced transparency and global compliance," Flood commented.

Ludwinski added: "The reduced number of correspondent banking providers has led to a move towards institutions, particularly EMIs and card providers, increasingly stepping into the cross-border payments business and connecting to payment schemes or local banks for payouts. I expect this trend will grow due to the rising cost of maintaining a network, as well as the reduction in the number of partners driving this change."

05

HOW CAN UPCOMING EU PAYMENTS REGULATIONS BE PREPARED FOR?

There are a plethora of new EU regulations and directives on the horizon. Many of these will require banks and financial institutions to start making (or really have already started to make) big changes.

Many will be aware of the impact PSD3 many have, and despite the timeline for this not yet being in place, there are still ways to prepare for it and surrounding legislation like the Payments Services Regulation (PSR) and the Instant Payment Regulation (IPR).

For those looking at these upcoming alterations, it may seem daunting. Yet, on the whole many of these innovations will work to encourage innovation, create greater efficiency and improve outcomes for consumers.

Aim of EU payments regulation

“EU regulation typically addresses three topics: (1) level-playing field, (2) consumer protection and (3) market integration,” commented Daniel Hellmann, director, risk advisory, payments, Deloitte.

There can sometimes seem to be a never-ending wave of new payments regulations, but as Hellmann noted, these often come with good aims behind them.

Regarding a level playing field, Hellmann argued that this will “allow on the one hand innovation from new market entrants (for example via granting access to accounts and payment systems) and on the other hand clear rules for interaction between the different players in the ecosystem.”

Hellmann stated that for consumer protection, upcoming legislation has had the addition of verification of payee and exchanges of fraud data.

Finally, Hellmann commented that the aim of market integration “can reduce complexity, allow easier expansion in new markets and same oversight.”

PSD3, PSR and the move towards open finance

PSD3 and the associated PSR are long awaited regulations which promise to alter the European payments landscape. As of yet, PSD3 and PSR are still under review, and the timelines are not yet known with more updates anticipated by 2025. In light of this, it is important to look at what is expected of these regulations and their proposed benefits.

"Regulations like PSD3 and PSR aim to level the playing field and drive innovation rather than be seen as the classic competition for the same resources that financial institutions are trying to use to make innovation changes," said Kevin Flood, director, FIS payments ecosystem strategy, corporate and international banking, FIS Global.

PSD3 builds on its predecessor PSD2, driving open banking forward. Flood argued that it will also "foster and drive innovation". He gave examples like enhancing the Open Banking Framework and pushing open finance forward which will "enable the sharing of more financial data and offering of more services."

Flood elaborated: "PSD3 may lower the barriers for new entrants, by lowering regulatory and compliance barriers new fintech startups may find entrance to the market easier promoting more innovation, collaboration and competitive collaborative."

Samarth Bansal, general manager, Asia Pacific, Wise Platform stated the PSR and PSD3 will "introduce stricter transparency requirements and enhanced safety measures."

From Bansal's perspective, these are welcome due to the costs of hidden fees. He stated: "These hidden costs, often unknown to consumers due to a lack of transparency in fee structures, highlight the need for change."

Bansal continued: "The upcoming regulations will offer PSPs an opportunity to address these challenges and build trust and greater relationships with customers by delivering on the transparency that consumers increasingly demand."

Additionally, Flood stated there is "PSD3 could foray into digital currencies like crypto, stablecoins, CBDCs which will help with frictionless cross border transactions and digital assets payments. We could even see QR code payments making an entrance into the EU market."

Instant payments and tacking fraud concerns

The IPR, or SEPA instant, is "shaking up the industry" according to Amelia Ruiz Heras, Head of Global Solutions Consulting, Payments at Finastra.

Flood argued that PSD3 regulation will work in conjunction with IPR and "should go some way to encourage development of faster and more efficient payment systems."

Ruiz Heras noted this mean PSPs across the EU will have to offer "transactions in euros, any time of day and year, and at a cost that is no more than the fee charged for sending or receiving non-instant euro credit transfers."

For proponents of instant payments, this is what they have been aiming for, but it is not without hurdles. One of the major stumbling blocks of instant payments which continues to arise is fraud and criminal activity, as Hellmann stated: "Instant payments require additional safeguards on scalability, availability and security."

Ruiz Heras noted that there are a number of anti-fraud requirements built into the IPR: "Banks and PSPs will need to have robust anti-fraud measures in place, including carrying out sanctions screening procedures at least once a day and providing a Verification of Payee (VoP) service to verify the match between the international bank account number (IBAN) and the name of the beneficiary, to alert the payer of a possible mistake or fraud before the payment is made."

It is Hellmann's view that these measures around sanctions screening and VoP "will reduce fraud and this hopefully leads to more customer satisfaction and lower exposure to enforcement action and lower amount of alternative dispute resolutions."

The IPR's requirements are almost mandatory for banks and the tight timeline of the IPR adds further pressures for financial institutions meeting the requirements of this legislation. Ruiz Heras commented: "With aggressive timelines and challenges associated with legacy infrastructure in many banks, compliance can be a big undertaking."

However, Ruiz Heras did provide some solutions to these issues: "By adopting a cloud-based, API-enabled Payments as a Service (PaaS) solution that provides instant access to new clearings and payment methods, real-time fraud prevention, and VoP, institutions can both fast-track compliance with the regulation and go beyond compliance to provide additional value to their customers."

Apart from the benefit of giving customers instant payments directly, Ruiz Heras argued there are opportunities for further benefits: "Banks will have the opportunity to differentiate their offerings by developing new services and revenue streams. Through cloud, PaaS and open APIs, they can quickly bring this new functionality to market as regulations and innovations evolve, such as utilizing AI to enhance payments processes and strengthen security."

Next EU regulations to watch

In addition to the move from open banking to open finance through PSD3, Hellmann highlighted Framework for financial data access (FIDA) as the next regulation to watch.

He said: “FIDA includes new data sets to be shared to Financial Information Service Providers, if consented by the customer. This will include new financial institutions, for example insurers or asset managers, and allow new digital financial services.”

Yet Hellmann the benefits FIDA could bring as it “allows traditional bank to develop better advisory services for their customers and stay or become even more relevant.”

The Digital Euro’s development is another area to watch. The European Central Bank published a progress report midway through 2024, showing their progress and a timeline showing the finalising of the Digital Euro rulebook is projected for October 2025, with a next phase potentially being launches after that.

How to prepare for upcoming EU payments regulations

Looking at preparing for all of these regulations, there are some steps which can be taken.

Hellmann advised to check similar requirements of different legislation and timelines. He states that IPR and PSR are different but require similar measures, like VoP. He stated: “PSPs should have already started to prepare, or should start now. It is of importance to review and compare the requirements of the different regulations to ensure proper application at the correct date. This avoids double work due to slightly different scope.”

Regarding preparing for FIDA, Hellmann said that although financial institutions will be familiar with open banking, other financial institutions should start familiarising themselves with the opportunities and requirements.

Hellmann concluded: “Typically, regulation is an answer to observed and unregulated innovation, which most often has its source in technology or in customer demand. Regulators should work hand in hand with innovators, engage in dialogue and provide guidance to foster innovation by at the same time ensuring level-playing field, consumer protection and market integration.”

06

WHAT IS THE KEY TO SUCCESSFUL DIGITALISATION?

Financial institutions need to transform their entire business and operating model to achieve bespoke, modular digital solutions and improve profitability. So, how can open banking and embedded finance help with this goal? And which hurdles remain?

Annalisa Ludwinski, head of correspondent network management, Investec, argued partnership is key. “Over the last few years there has been a shift from self-building or developing legacy systems, to partnering with specialists who have niche expertise in providing solutions for clients.” Alongside this co-operation, there has also been consolidation, as “larger players move from partnership to ownership, which reduces access to other players if they do not continue to offer services.” At all costs, access must remain high – in order to maintain competition and foster innovation.

Evidently, open banking creates challenges as it does opportunity. By opening data for others to absorb and present to consumers, institutions expose themselves to the possibility of mining this data. This could allow competitors to develop bespoke solutions for those consumers.

Could this result in some banks losing custom as their unique selling proposition (USP) wanes? This is yet another area to monitor closely. While regulatory controls or restrictions on accessing such data could be tightened, the policing of this would be extremely complex.

Katja Lehr, managing director, EMEA payments solutions, J.P. Morgan Payments, acknowledged that navigating this frontier will be tough, but was keen to underline the potential rewards: “Financial institutions are uniquely placed to offer end-to-end embedded solutions. The data financial institutions have today, as enriched through open banking, will define the opportunities of tomorrow. Using information to automate payments – also known as programmable payments – or other activities, such as transfer of ownership, are just some examples how banks can add value.”

Financial institutions need to transform their entire business and operating model to achieve bespoke, modular digital solutions and improve profitability. So, how can open banking and embedded finance help with this goal? And which hurdles remain?

Annalisa Ludwinski, head of correspondent network management, Investec, argued partnership is key. “Over the last few years there has been a shift from self-building or developing legacy systems, to partnering with specialists who have niche expertise in providing solutions for clients.” Alongside this co-operation, there has also been consolidation, as “larger players move from partnership to ownership, which reduces access to other players if they do not continue to offer services.” At all costs, access must remain high – in order to maintain competition and foster innovation.

Evidently, open banking creates challenges as it does opportunity. By opening data for others to absorb and present to consumers, institutions expose themselves to the possibility of mining this data. This could allow competitors to develop bespoke solutions for those consumers.

Could this result in some banks losing custom as their unique selling proposition (USP) wanes? This is yet another area to monitor closely. While regulatory controls or restrictions on accessing such data could be tightened, the policing of this would be extremely complex.

Katja Lehr, managing director, EMEA payments solutions, J.P. Morgan Payments, acknowledged that navigating this frontier will be tough, but was keen to underline the potential rewards: “Financial institutions are uniquely placed to offer end-to-end embedded solutions. The data financial institutions have today, as enriched through open banking, will define the opportunities of tomorrow. Using information to automate payments – also known as programmable payments – or other activities, such as transfer of ownership, are just some examples how banks can add value.”

Open banking and embedded finance: Where are we headed?

It’s all too easy to forget just how much change open banking has enabled in the several years since it was introduced. Looking ahead, to the next five years – as end-users’ payments experience is fine-tuned and the underlying architecture is tweaked to increase customer satisfaction – we can expect the same amount of innovation again, or more. But what pain points remain? Will the European Payment Council (EPC’s) SEPA Payment Account Access (SPAA) scheme, for example, be instrumental in paving the way for open banking in the Single Euro Payments Area (SEPA)?

Ludwinski believes so. “In Europe, many of the major banks are not currently offering SEPA Instant, and the demand for and usage of open banking is relatively low. When SEPA Instant becomes the norm – just like how faster payments have become in the UK – consumers will begin to demand more from banks. I expect that open banking adoption will be required, particularly for solutions such as ‘pay-by-bank’ which need instant rails to facilitate payments.”

“If you couple this with developments in the way payments are increasingly being processed, such as the use of quick-response (QR) codes,” Ludwinski continued, “the method becomes even more streamlined. In less developed countries, the practice of instructing an account to make merchant payments by scanning a QR code is on the rise. However, for this to be a viable alternative, instant payment needs to underpin the solution.”

Lehr, too, pointed to consumer demand as the guiding force on the open banking landscape. “Today, users expect easy, slick, straight forward, digital experiences. Technology incumbents have set the bar high in terms of customer experience.”

But difficulties remain. Much of the “business complexity” is still revealed to end-users in many banking apps today, observed Lehr. This should be moved into the background: “Repetitive information collection needs to be solved, too. While the products a customer is using are provided by different parts of the bank, background systems need to be connected so that a client is not impacted by the silos the organisation has created.”

Clearly, data accessibility is becoming increasingly paramount for decision making. “Open banking, as defined in the second Payments Services Directive (PSD2), was a good first step in the right direction,” noted Lehr. “The EPC’s SPAA scheme has the potential to be a catalyst for a broader adoption of open banking in SEPA. Data sharing needs to be expanded to harness the full opportunity of open banking, including the kind of data that can be shared, who can share data and how it is shared.”

Cloud-based managed services

A vision for the future of payments would be incomplete without the cloud. It is destined to play a big part in the ongoing digital transformation in banking. So, what is the best strategy for banks to streamline their operations, increase scale and improve time-to-market? Is payments-as-a-service (PaaS) a viable model?

Amelia Ruiz Heras, head of global solutions consulting, payments, Finastra, pointed out that in a rapidly evolving digital landscape, “banks, lenders, and other financial institutions face mandatory regulatory requirements, like ISO 20022 standards and SEPA compliance demands, increased competition, and rising customer expectations for faster, more convenient payment transactions.

"PaaS has rapidly emerged as the solution – offering streamlined payment processing, reduced complexity, and enhanced compliance. With PaaS, organisations can automate multi-rail payment processing, improve operational efficiency, scale to meet fluctuating market dynamics, and swiftly deploy new clearings and alternative payment methods."

According to Finastra and Datos Insights, the top three business drivers for PaaS are "reducing operational complexity, lowering total cost of ownership, and launching new services, faster." PaaS also delivers scale, redundancy, security, analytics, and compliance measures.

Ruiz Heras advised banks to look for a PaaS solution that includes "pre-built business workflows and modules, automated deployment and onboarding tools, and the ability to easily integrate third-party solutions to accelerate time-to-market." It should also have "open architecture, application programming interface [API] frameworks, and multi-rail support to facilitate seamless integration, adaptability, and flexibility."

In particular, the solution should be "built on a cloud architecture that can deliver 24/7/365, low-latency, scalable, and secure instant payment processing. The solution must also offer seamless multi-channel experiences, payment visibility, fraud prevention, secure transactions, and emergency payments."

Lehr concluded by acknowledging that client expectations, as well as regulatory and legal requirements, are ever-increasing. "Managing expectations can be difficult not only from a financial standpoint, but also from a resource standpoint. Like other industries that have gone through comparable challenges, financial institutions must ask themselves whether it is feasible or business-sensible to do everything themselves and develop in-house solutions. Focusing on core competencies while outsourcing other activities must be considered as an approach to wider digital transformation."

07

CAN TECHNOLOGY INNOVATIONS RESHAPE THE PAYMENTS SECTOR?

Never has technology evolved as quickly as it does today, and innovation is ripe in finance and banking. AI, tokenisation, stablecoins, CBDCs and hyper-personalisation are all elements of discussion when it comes to making transactions more secure, streamline operations, reduce costs and enhance customer experience.

Let's explore these trends more closely.

AI in banking and payments

Payment service providers (PSPs) have used rules-based AI, such as machine learning and robotics process automation, for a long time. Now, new forms of AI – centred around large language models (LLMs) or generative AI, enable new use cases and offer institutions innovative opportunities to differentiate.

One of the main use cases lies in AI's fraud detection and mitigation capabilities. Many organisations have started deploying AI-based AML and fraud solutions that help them to improve their detection rates by reducing false negatives or positives and reducing the manual labour needed to mitigate modern threats.

The increased availability of generative AI can additionally enable financial institutions to reduce the time needed to investigate potential suspicious activities and has the potential improve the Know Your Customer (KYC) processes.

Amelia Ruiz Heras, head of global solutions consulting, payments at Finastra, highlighted: "The technology can provide automatic sourcing and validation of customer information, flagging anomalies to the account manager, and assessing client-specific market data and media stories to ensure that KYC criteria continue to be met. With other functionality such as voice-activated payment authentication, improved counterparty screening and cross-checking more data records in shorter timeframes, the technology has several promising applications for robust payments security."

Synthetic data is another opportunity unlocked by AI. In 2025, data is one of the most valuable assets in any organisation, and institutions are not just faced with a vast amount of data they have access to and need to safeguard, but complex, comprehensive data is also needed to train their fraud prevention models. In order to protect sensitive customer data, synthetic data is one of the most effective ways to address the data question.

"AI-generated synthetic data is also being explored to provide institutions with more comprehensive and realistic business and market outlooks, thereby improving cashflow forecasting accuracy. This data could also be used to detect new types of fraud, ensuring institutions stay ahead of fraudsters as their methods continue to evolve," Ruiz Heras added.

If we look at the back-office, AI has the potential to improve operations, strengthen security and boost productivity, which can help organisations drive down costs significantly. On the flip side, in the front-office AI can drive revenues by unlocking new revenue streams and allow access to previously untapped potential.

If we look at the front-office, hyper-personalisation is one of the key opportunities unlocked by AI. Hyper-personalisation enables organisations to address increasingly complex customer expectations by offering highly tailored products, streamline the customer service journey, and also improve security.

Sulabh Agarwal, global payments lead, Accenture, noted the importance of ISO 20022 in these efforts, he stated that "its enhanced data formats allow for the exchange of richer information such as structured remittance data and purpose codes. This improves straight-through processing (STP) rates, reduces errors, and offers greater insights for businesses. This, in turn, reduces fraud and increases the efficiency of global payment systems and allows the businesses to establish better experiences for the end consumers."

In collaboration with the increased data that will be available with ISO 20022, organisations will now have a richness of information on their customers across a wide ranging financial landscape. The available data, in combination with AI and behavioural analytics, which will help combat fraud by knowing what a customer's normal and thus abnormal transactions look like.

Yet there are some hurdles to overcome in order to achieve this, as Kevin Flood, director, FIS payments ecosystem strategy, corporate and international banking, FIS Global pointed out: "The risks for what can still be considered a fledgling technology, and one that is yet to be fully regulated, remain high. The impact of recent AI regulation will take some time to unpack and implement, which means that risk appetites remain somewhat on the more cautious side.

Nevertheless, the use cases for AI continue to grow and the relative certainty of regulation will allow for the envelope to be pushed. The use for AI and GenAI for hyper-personalised products should take the charge in conjunction with using it to fight the unabating rise of fraud."

Looking to the fraud risks, Agarwal noted there are a number of different approaches being taken globally, such as Confirmation of Payee in the UK, fraud detection at multiple stages in Sweden, the launch of Transaction Monitoring Netherlands, and Malaysia's recent National Fraud Portal. Yet he argued that "an ideal approach would involve all the industry stakeholders (payments market infrastructure, banks, telcos, social platforms, law enforcement agencies, regulators) and focused on the entire value chain of fraud prevention, fraud reporting, collective action, fraud recovery and customer reimbursement. Cross-industry collaboration through shared fraud databases and real-time information exchanges, allows organisations to stay ahead of the new techniques deployed by the fraudsters."

Considering AI technology is in its nascent stages, Ruiz Heras outlined four steps that institutions should take before making a decision on whether or not to deploy a solution:

1. Decide how you will gauge the benefits AI will bring, such as reducing TCO and losses to fraud, while increasing operational efficiencies and straight-through processing (STP).

2. Pair these metrics with softer benefits such as enhanced client experiences, having the means to innovate more easily, building your brand through improved and AI-generated materials.

3. Explore with technology partners any alternative pathways to your objective. Evaluate both the nominal investment associated with each pathway as well as the level of disruption and risk each pathway will impose.

4. Consider the risks of rapidly evolving technology, keeping in mind that some of the most profitable applications of AI are perhaps yet to be unearthed. Ask your technology partners to keep you appraised of emerging use cases. Ensure you understand AI usage policies and processes your partner has established in their organization, as well as any regulatory requirements you might need to adhere to, such as the EU AI Act.

Challenges and benefits of CBDCs, tokenised deposits and stablecoin adoption

Tokenised money is on the horizon in many regions across the world. As of September 2024, 134 countries and currency unions, representing 98% of global GDP, are exploring CBDCs. Three CBDC schemes have been launched so far (in the Bahamas, Jamaica, and Nigeria), and 44 – including most of Europe and APAC) are in its pilot phases. North American CBDC schemes are still in development.

While development marches relentlessly on, Annalisa Ludwinski, head of correspondent network management, Investec, noted the challenges of the situation: "Market fragmentation is already a concern, as many institutions are researching and developing use cases for tokenised money and assets at a pace that regulators and central banks cannot keep up with. There are already costs and challenges associated with connecting to multiple private loop networks, with little to no interoperability between them; this issue will only increase."

Naveen Mallela, co-head of Onyx by J.P. Morgan, added: "Market fragmentation is inevitable as different parties develop and test out different innovative solutions. The alternating cycles of divergence and then convergence is a natural part of innovation. While we will be better off with better solutions, the key is to drive convergence quickly and minimize the period of fragmentation."

One concern is the programmability of tokenised assets. Petia Niederlaender, director payments, risk management and financial literacy, Oesterreichische Nationalbank, highlighted that programmability raises privacy concerns, might lead to new operational and cybersecurity risks, and could potentially have a negative impact on economic stability as well as create new challenges for regulators.

"In this context, it is key to distinguish between 'programmable money' and 'programmable or smart payments'. Whereas 'programmable money' contains embedded rules that determine how the money can actually be spent, "programmable or smart payments" are conditional payments that are carried out automatically once a certain pre-defined set of conditions has been met," Niederlaender explains.

Yet, she added, this is also where innovation plays a crucial role and where the digital Euro could potentially turn into a major driver of future advancements: "As a key payments' infrastructure, the digital euro would provide the basic railings upon which fintech companies and start-ups could innovate and build new use cases, value-added services and convenient consumer and business solutions. While the digital euro's core functionalities would ensure broad public access and inclusion of vulnerable groups, private-sector market participants could leverage this by offering their enhanced services and value-added solutions including conditional payments via APIs."

Increased efficiency is not the only benefit that can be realised from programmability. Tokenisation additionally offers greater access to financial services, especially for un- and underbanked groups, which boosts democratisation in the space.

Lastly, Ludwinksi added positive effects on global trade linked to programmability: “If we consider the development of a stablecoin to help smooth global trade, there are certainly benefits. If stablecoins could be linked to a smart contract that would, for example, automatically pay out using that stablecoin when certain parameters are triggered, then the operational efficiency savings could be substantial, as well as providing an excellent way to manage risk and exposure on an almost real-time basis.”

08 CONCLUSION

2025 could prove to be a really exciting year for payments, but it will certainly be a trying one. The goal of instant and frictionless global payments is one which will continue to be strived for, with regulation, technology, and innovation all collaborating to achieve this end.

ISO20022 and Instant Payments deadlines will add a regulatory pressure to the start of 2025, with anticipated announcements around PSD3 meaning that compliance planning will continue throughout the year. The developments promised by these legislation have the potential to alter the payments landscape as whole in a move toward open finance and instant payments.

The landscape will continue evolve as innovators push transformative technologies. Artificial intelligence promises to make a significant impact as the year goes on, but tokenised developments such as CBDCs could also see substantial development in 2025. Companies will continue to innovate to create new use cases for their technologies.

Despite these positive outlooks, there still remains growing concerns around issues like fraud and financial inclusion. This makes collaboration and communication throughout 2025 ever more important, to ensure the protection and best outcomes from consumers and financial services.

09

ABOUT FINEXTRA RESEARCH

This report is published by Finextra Research.

Finextra Research is the world's leading specialist financial technology news and information source. It offers more than 130,000 fintech news, features and TV content items to some 800,000 monthly visitors to www.finextra.com.

Finextra covers all aspects of financial technology innovation involving banks, institutions and vendor organisations within the wholesale and retail banking, payments and cards sectors worldwide. Finextra's unique member community consists of over 40,000 fintech professionals and 200,000 social followers working inside banks and financial institutions, specialist fintechs, consulting organisations and technology providers.

The Finextra community actively participates in contributing opinions, ideas and comments on the evolution of fintech.

For more information:
Visit www.finextra.com and become a member,
follow **@finextra** or reach us via contact@finextra.com.

Finextra®

Finextra Research
77 Shaftesbury Avenue
London,
W1D 5DU
United Kingdom

Telephone
+44 (0)20 3100 3670

Email
contact@finextra.com

Web
www.finextra.com