Global Payment Trends

October 2024

HSBC

Introduction

Earlier this year the Treasury Solutions Group (TSG) at HSBC published its first Global Payment Trends report, which gave a forward-looking view on the future of payments.

It pinpointed the rise of a range of new payment trends and business models, as well as the key issues for treasury teams in responding to emerging opportunities like distributed ledger technology (DLT) and Web3, which are challenging legacy payment models.

Our House Views have also shed light this year on topics including treasury transformation; digital and platform business models; the key drivers for real-time treasury; and the payment paradigms underpinning cryptocurrencies, stablecoins and central bank digital currencies (CBDCs).

With each of these, TSG has explored important themes in cash management that are already impacting the day-to-day activities of our clients. This Autumn edition of Global Payment Trends focuses on how the payments landscape continues to transform, driven by technological advancements, the adoption of new digital business models and the emergence of new payments infrastructure.

We explore how innovation in payments systems is actively helping organisations adapt to the current landscape- not just in transforming business models, but also in offering a more fundamental opportunity to reimagine cash management processes and working capital strategies.

The role of digital e-commerce in shaping new business models

As highlighted in our Digital Business Models publication[1], digitisation is reshaping society and commerce at large. It revealed how breakthroughs in technology, changes in consumer behaviour and progress on regulatory initiatives are powering major upgrades across banking and payments infrastructure.

Another key shift – despite still being at a relatively early stage – is the rise of e-commerce and the 'platform' economy. While native e-commerce players were the early adopters of this trend, a much fuller range of companies is now embracing digital commerce and direct-to-consumer (D2C) models as key drivers of growth. For instance, HSBC's September 2023 Global Connections survey highlighted that 28%[2] of firms in Southeast Asia expect e-commerce to be transformative for their business, while 29% recognise the importance of digital payments.

Companies are also becoming more connected to one another, increasing the need for end-to-end payment experiences between counterparties, buyers and suppliers.

Yet at the same time, the payments landscape is increasingly fragmented across cards, bank payments and digital wallets, which had shares of 35%, 7% and 50% of e-commerce transaction value respectively, according to Worldpay's 2024 Global Payments Report[3].

Through this, businesses want simplified banking services rather than having to deal with an assortment of different payments and e-wallet providers as they pivot towards digital transactions and digital-first business models.

Payments and associated financial services also need to become more embedded into client workflows and commercial ecosystems. For companies with greater resource constraints, that might mean selecting off-the-shelf or 'plug and play' solutions. But larger corporates with bigger budgets are choosing to assemble their own end-to-end solutions, often by integrating modular technologies from different partners.

Also, while organisations are determined to achieve greater agility on cross-border transfers, respondents to HSBC's 2023 Global Supply Chains – Networks of Tomorrow survey expressed concerns about cybersecurity, hidden transaction costs, foreign currency management and payment transparency.

Visibility of transactions across supply chains and the optimising of working capital were identified by clients as lead priorities, for instance (cited by 46% and 42% respectively). Cybersecurity was another key focus, with 30% of respondents highlighting it as a priority area.[4]

Treasurers are also increasingly working with their banks on delivering data strategies, and digitising daily operational tasks. For example, technological advancements and increased access to bank data has enabled treasurers to enhance the accuracy of cash flow forecasting.

[1]Treasury Transformation: Digital and platform business models | Insights | HSBC
[2]Global Connections: Connecting Southeast Asia and the World Sep 2023, HSBC
[3]The Global Payments Report 2024 | Worldpay

The continued rise of embedded payments

The enriched, real-time data that can be gained from new payment rails and digital platforms has generated significant demand from treasurers for solutions that simplify integration between these platforms and their systems. This is generally in service of allowing key financial information and analytics to flow in real-time into a centralised treasury interface.

The explosive growth of real-time payment rails has also created a need for more efficient processing of large volumes of low-value payments, and increasing interest from treasurers in using these rails to create on-demand alternatives to older, batch-based payment processes.

> Globally, 575.1 billion real-time transactions are forecast by 2028. This represents a 2023-2028 compound annual growth rate of 16.7%. By 2028, real-time payments are expected to account for 27.1% of all electronic payments globally." [5]
>
> Source: ACI 2024 Report, ACI Worldwide

This is underpinning the rising interest in 'banking as a service' solutions, which allow companies to easily integrate necessary financial services and information into their platforms. In simple terms, these allow companies to manage and monitor payment flows on centralised platforms in highly responsive and transparent ways.

Payment service providers and payment rail operators are already offering the back-end technology, infrastructure and analytics needed to achieve these objectives, which banks have integrated into their own services to clients. End users can then integrate their own financial systems with these offerings, usually via APIs, which reduce the cost and complexity of IT resource requirements.

These new payments platforms, which are typically cloud-based, are expected to experience explosive growth, with predictions that the market could be worth over US$138 billion by 2026 according to a 2023 report by The Paypers.[6]

Over the past few years, HSBC has partnered with several enterprise resource planning (ERP) providers, such as NetSuite, that provides HSBC financial services embedded in their ERP solution. With one single user interface, corporates can onboard and open an account, initiate payments, and reconcile directly in NetSuite, benefiting from high-level security.

Vekridge Chemical Company, a family-owned industrial chemical distribution business based in New Jersey, USA, adopted the NetSuite AP Automation module to move away from manual and repetitive work processes. With a single sign-on to NetSuite, Vekridge can create a bill from the payment order, tie this back to the vendor and instruct the payment. There is no longer a need to have to navigate from one system to another to pay invoices. This improved invoice management workflow provides greater visibility of payment status, streamlining reconciliation all from within the NetSuite UI.

> In a perfect world we're going to be working with more vendors and selling more products and AP Automation is going to make us be able to manage those relationships without having to incur that time stuck that goes into it of managing different bank accounts and platforms and free handing all that information back and forth."
>
> **David Veca**
> Head of Finance and Technology, Vekridge Chemical Company[7]

[5] It's Prime Time for Real Time - ACI 2024 Report, ACI Worldwide
[6] Embedded Finance and Banking-as-a-Service Report 2023, The Paypers
[7] Vekridge Chemical Company Automates Accounts Payable with NetSuite

Five areas to look out for

The growth in e-commerce activity is driving demand for digital payment solutions in both the business-to-business (B2B) and business-to-consumer (B2C) spaces that offer their customers new choices and value-added benefits. As the landscape shifts, regulatory bodies are promoting new standards and guidelines as well.

In Asia Pacific there is a focus on modernising payments infrastructure to absorb changes in consumer behaviour, such as the increased usage of QR codes.

In the European Union, security of payment processes is a top priority. It is understood that the proposed Payments Directive 3 (PSD3) may introduce licensing requirements for payment institutions, as well as new stipulations on data privacy under the Financial Data Access Regulation (FIDA). The forthcoming regulation may change the framework for sharing of financial information beyond payment accounts.

To accelerate adoption of digital instant payments in the United States, the Federal Reserve has launched FedNow, an instant payment platform which operates alongside the pre-existing Real Time Payment scheme operated by The Clearing House. Both are designed to provide flexibility to companies on incorporating real-time payments into their treasury management processes in line with their operational requirements.

Below we outline five major payment trends that look poised to impact global commerce:

1. Real-time payment infrastructure driving growth of digital wallets and account-to-account (A2A) payments
2. Intensifying uptake of virtual cards in B2B payment spaces
3. Globalisation continuing to drive demand for optimising cross-border payment processes
4. ISO 20022 as an enabler for greater cross-border interoperability and data flows
5. Real-time cross-border payments as the next frontier

Real-time payment infrastructure driving growth of digital wallets and A2A payments

Digital wallets have emerged as an effective and convenient means of making payments. The trend is a result of the spectacular growth of e-commerce, the rapid adoption of smartphones, and the encouragement of many central banks.[8] It is particularly strong in Asia Pacific- Worldpay's 2024 Global Payments Report revealed digital wallet payments make up 50% of point-of-sales transactions in stores, and 70% of overall spend at e-Commerce, the highest of any region.[3]

CASE STUDY - J&T Express

A leading express delivery provider in Southeast Asia, J&T Express leveraged the combined capabilities of QR codes and PromptPay, Thailand's real-time payment rail, to introduce a wholly-digital alternative to traditional "cash on delivery" payments. This has granted users a simplified "scan and pay" process to fulfill payments for deliveries in mere seconds, improving the user experience, as well as enhancing payment security. Find out more here.

The proliferation of 'super apps' is driving digital wallet use, particularly in mainland China and Southeast Asia, through their widespread integration as a payment method for services on the apps in question. These features boost the customer experience and encourage repeat purchases. Built-in loyalty programmes and social networking features bring further advantages to the use of digital wallets.[9]

Account-to-account (A2A) payments are also quickly increasing their share of the payments sector, facilitating lower-cost and near-instant settlement between bank accounts. Adoption tends to be stronger in emerging economies, where central banks see an opportunity to boost financial inclusion and digitisation.

The explosive growth of digital wallet and A2A payments is itself being driven by the increased availability of real-time payment (RTP) schemes across markets. Again, the trend is fastest-growing in Asia-Pacific markets, where credit card penetration is lower.[11] RTP rails themselves are heavily ingrained within the underlying payment infrastructure for digital wallets and A2A transfers, often serving as the main conduit through which transfers are made. This has made RTP adoption a fundamental aspect of delivering a satisfactory customer journey in the region.

> "In 2023, global real-time payment transaction volume was 266.2B, a YoY growth of 42.2%; it accounted for 19.1% of all electronic transactions globally."[3]
>
> Source: Worldpay –
> The Global Payments Report 2024

However, digital wallets are catching up in historically card-dominated markets like Europe and North America too[3]. One example is the Bizum instant payment system, which first emerged in Spain in 2016. Bizum's value proposition is to provide users and merchants with an immediate, convenient, and universal payment method, regardless of their bank or mobile device brand.[12]

[3] The Global Payments Report 2024 | Worldpay
[8] Digital Wallet Users to Exceed 5.2 Billion Globally by 2026, Juniper Research
[9] Digital Wallets: Creating the Next Generation of Super Apps | Whitepapers (juniperresearch.com)
[11] FIS - The Global Payments Report 2023 - May 2023 (fisglobal.com)
[12] Cross-Border Payments and Ecommerce Report 2023–2024, The Paypers

Virtual card uptake intensifying in B2B payment spaces

Businesses are looking to replicate the consumer cardholder experience for their employees through greater use of technology that simplifies day-to-day business processes.

According to Research and Market's 2024 Global B2B Online Payments Trends report, Digital and virtual payments, especially virtual card payments, are expected to grow over 250% by 2028[13], as companies continue to adopt these to a greater degree to enhance management of accounts receivables and accounts payables.

This is driven by the fact that virtual cards can be easily embedded into B2B payments and invoice processing via API. This has allowed organisations to realise benefits such as faster cash application from feeding enhanced balance and transaction reports into receivables management systems to automate collections reconciliation, and optimise working capital by embedding virtual cards as a payment method for invoices.

Additionally, virtual cards have the inherent benefit of fraud prevention through tokenisation and customised spending controls. They rely on randomly generated, single-use card numbers, which are linked to funding accounts with an established line of credit. Virtual cards are typically used for specific transactions, or for a specified period of time, providing key fraud prevention benefits.

Demystifying Challenges

Suppliers' Card Acceptance: Many companies face challenges from suppliers that do not accept card payments. As a result, the company will often continue to use cheques for these suppliers and miss out on the working capital benefits of a card programme. Payment Facilitators allow companies to make card payments even when their supplier won't accept card payments. Companies can make a payment via card to Payment Facilitators, who then forward the payment to the ultimate beneficiary as a digital or cheque payment. This allows the company to fulfill obligations while optimising working capital.

Digital Virtual Card Issuance: Virtual card functionality can be enhanced by leveraging fintech solutions that offer ways for companies to create and distribute digital virtual cards to their cardholders. This opens up employee access to corporate cards, bringing all card payments within the company's commercial card programme.

Interchange Costs: Tasks in improving commercial card programmes include looking at overall spend of the programme, timing payments to take advantage of discounts, and optimising the working capital benefits. There are also a variety of customisable and proprietary interchange rates that can be developed for specific buyer-seller relationships, allowing buyers to negotiate with larger suppliers to accept card payments for higher value transactions.

[13] Global B2B Online Payments Trends 2024 - Research and Markets

Globalisation continues to drive demand for optimising cross-border payment processes

Despite talk of its demise, globalisation is here to stay, invigorated by increases in world trade and the advent of the digital platforms that are fuelling B2C, C2C and B2B commerce. This has led to new dynamics, such as the rise of RMB as an international trading currency.

These realities are translating into exponential growth in cross-border payments, including a growing portion of lower-value transactions, that is expected to reach at least US$250 trillion in value by 2027.[9]

> "
>
> HSBC economists expect world exports of goods and services to grow y-o-y by 1.8% in 2024 and 3.4% in 2025, following an estimated annual contraction of 0.7% in 2023."[14]
>
> Source: HSBC Global Research

> "
>
> Payment revenue of banks and payment players has increased by double digit rates globally for two consecutive years since 2021, proving resilience in the payment industry. Cross border payment flow in 2022 recorded 13% growth, reaching $150 trillion. The key growth areas are B2B and C2B trade- both consumer and commercial payments increased at double digit rates."[15]
>
> Source: McKinsey and Company – 2023 Global Payments Report

As companies embark on a greater level of international business dealings, achieving greater security and efficiency across the entire end-to-end cross-border settlement journey takes on greater significance. This creates opportunities for collaboration with the right partners on leveraging suitable technologies or solutions to optimise cross-border payment processes.

This is central to our strategy at HSBC. Solutions such as Global Disbursements, and FX Prompt, which provide rates and charges upfront prior to payment execution, were developed to help companies make this transition. We also developed our Multi Currency Pricing Solution to provide time-guaranteed FX rates to merchants on cross-border payments. This allows their customers to pay in their preferred local currencies, while ensuring that full transparency on the ultimate cost of payments is maintained.

CASE STUDY - Coupang

US-headquartered retail company Coupang leveraged HSBC's Global Disbursements solution to ensure sellers located across the world could be paid in their preferred currency directly to an account of their choice. The solution has also provided with a scalable and highly-efficient international payment process as they continue to scale their business. Find out more here.

Beyond transparency on FX and charges, we have also provided our customers with the ability to validate their beneficiaries prior to payment execution through our Payment Pre-Validation API.

For cross-border commerce from mainland China particularly, our direct membership in the Cross-border Interbank Payment System (CIPS) will allow customers to make cross-border RMB settlements in a faster and more transparent manner.

[9] Digital Wallets: Creating the Next Generation of Super Apps | Whitepapers (juniperresearch.com)
[14] Trade in 2024: Proceed with caution | Insights | HSBC Global Research
[15] On the cusp of the next payments era: Future opportunities for banks, McKinsey

ISO 20022 as an enabler for greater cross-border interoperability and data flows

The migration towards ISO 20022 industry standards – now well-advanced across markets and clearing systems around the globe – marks another leap forward in the evolution of global payments.

This transition promises to enhance automation, interoperability and efficiency across the financial sector, and unlock new potential for added-value services on the basis of significantly enriched flows of data.

As treasury teams prepare for ISO migration, they must review how their technology choices will support the new format, working closely with their Enterprise Resource Planning (ERP) and Treasury Management System (TMS) providers. Another task is to ensure the quality of the data being populated into the ISO format, including creditor, ultimate debtor, initiating party and ultimate creditor details.

Adoption of global standards will reduce payment delays, allow for swifter reconciliations by treasury teams, support the prioritisation of urgent payments and enhance sanctions screening – to cite just a few of the benefits.

Yet there are challenges to navigate as well. For example, some markets may lack the enriched data that ISO standards demand. In other markets, clearing systems may require that more specific, localised data is provided. One example is the CHAPS clearing systems, which has imposed a purpose code defined by the Bank of England for property transactions. This is designed to help in cases where critical payments need to be identified quickly or prioritised for remediation in instances of system outage or disruption.

Real-time cross-border payments: the next frontier

Looking ahead, the banking sector is targeting further advances in payments as a priority area[16]. Achieving real-time cross-border settlements is of particular focus, especially as expectations that the convenience and speed that instant payments offer on peer-to-peer (P2P) payments can be transferred over to the B2B space intensify.

Different approaches are also emerging from a regulatory perspective as collaborations between governments generate new frontiers for cross-border transactions, typically with the goal of completing payments from senders to recipients within a matter of seconds.

The initiatives include bilateral and multilateral integrations between several RTP schemes, 'One-Leg Out' (OLO) models (such as the new SEPA OCT Inst scheme) and cross-border clearing hubs for instant payments.

One example of a live OLO model was the pilot integration of Spain's Iberpay instant transfer platform with the SEPA OCT Inst scheme, which was completed in May 2024. This has enabled payments between Spain and banks outside the Eurozone to be fulfilled 24/7 in mere seconds, with Swift's GPI tracker, providing full real-time visibility on payment status.

Elsewhere, Asian central banks are also cooperating to enable bilateral linkages between RTP systems- such as Hong Kong and Thailand, Singapore and India, and Singapore and Malaysia these allow tourists to pay for goods and services like locals. With the aim of further improving regional financial integration and trade, multilateral linkages such as Project Nexus, which aims to connect Singapore, India, Malaysia, Philippines and Thailand through a centralised clearing hub model, are also starting to appear.

Market players have also helped to strengthen cross-border interoperability with real-time payment rails, such as Alipay+, which allows consumers to make digital payments with QR codes when travelling.[17]

Spain has very high uptake in SCT Inst, with 53% of domestic credit transfers now instant[18], as well as active participation in the OLO scheme. To date, 36 Spanish banks[19] are already live and connected to Iberpay's service and the Spanish banking community has agreed to full adoption from October 2024.[16]

The Iberpay OLO pilot scheme involved payments between banks in multiple regions worldwide, such as Australia's National Australia Bank and Brazil's Itaú Unibanco, which were all successfully settled in seconds to ultimate beneficiaries. The pilot serves as a landmark achievement in showing the feasibility of global real-time transfers.

Cross-border RTP is one is one of several experiments being undertaken by industry bodies and regulators to improve the speed and ease of settlement. Another major area of interest is Central Bank Digital Currencies (CBDCs), which were discussed in more detail in our article "A new payments paradigm" (A new payments paradigm | Insights | HSBC).

[16] Global payments trends: Considerations for corporate treasurers (hsbc.com)
[17] Asia Pacific Cross-border Payments Monitor - Kapronasia
[18] Iberpay - Always one step ahead
[19] Registers of Participants in SEPA payment and payment related schemes | European Payments Council

Conclusion

The convergence of advances in treasury technology, the digitalisation of business models, and the constant stream of innovation in payments infrastructure is offering companies new opportunities to improve overall cash management and working capital efficiency.

The ability to embed payment processing seamlessly into ERP systems is just one example of how these technologies are bringing enduring value to day-to-day operations for companies, while the new options in payments infrastructure are also providing a wider range of choices for organisations to make sales to their customers. In the bigger picture, these changes are genuinely international in scale, with the promise of interoperability between global payment platforms already looming large on the horizon.

Progress like this is promising to shake up the payments landscape further, opening the door for companies to evaluate their operating models and deploy the necessary treasury technology to generate immediate and long-lasting returns for their businesses.

Authors

Kevin McKeever, Head of Treasury Solutions Group, North America, Global Payments Solutions, HSBC

Kevin McKeever is the North America Head of Treasury Solutions Group (TSG) for Global Payments Solutions at HSBC. Kevin is based in New York and has over 35 years of banking experience covering relationship management and cash management across sectors in the USA and Europe. In this current role, he provides consultancy to global corporates on domestic and international payments solutions, as well as training and advisory on current market trends across global liquidity and cash management. Kevin holds a MBA from the University of Warwick in the U.K., and is a Certified Treasury Professional under the Association for Financial Professionals (AFP).

Michèle Zaquine, Head of Propositions and Commercialisatioin & Treasury Solutions Group, Europe, Global Payments Solutions, HSBC

Michèle Zaquine is the Europe Head of Propositions and Commercialisation, and a member of the Treasury Solutions Group (TSG) for Global Payments Solutions at HSBC. Michèle is based in Paris and has more than 35 years of banking experience in Europe covering both cash management and structured trade. In her current role, Michèle leads a team that provides consultancy services and thought leadership to corporate clients, specialising in treasury payables/ receivables solutions. Michèle grew up in Singapore and obtained a Bachelor of Arts in Economics from Smith College, Northampton MA in the United States.

Kaiwan Turel, Director, Treasury Solutions Group and Receivables Product, Asia Pacific, Global Payments Solutions, HSBC

Kaiwan is a veteran in international transaction banking having worked in India, Hong Kong, and the United Kingdom in sales and client management roles. Currently a Director in Treasury Solutions Group, he leads the Receivables product proposition within Global Payments Solutions - addressing corporate clients' payments and treasury management needs through innovative solutions.

Cynthia Ho, Associate Director, Treasury Solutions Group, Asia Pacific, Global Payments Solutions, HSBC

Cynthia is a member of the Treasury Solutions Group (TSG) for Global Payments Solutions at HSBC. Cynthia is based in Hong Kong with cash product and sales management experience across corporate and retail banking. In her current role, she provides consultancy and thought leadership to corporate clients. Cynthia holds a MBA from the Chinese University of Hong Kong.

Special thanks to:

Faisal Jafri – Regional Head of Commercial Cards, GPS – USA
Clay Scherer – Senior Product Manager – Commercial Cards USA
Gregory Edwards – Managing Director, Global Markets – UK
Holger Zeuner – Head of EMEA Thought Leadership, Global Markets – UK

Important Notice

HSBC | Opening up a world of opportunity