HOW OPEN BANKING IS DRIVING A2A PAYMENTS

Whitepaper

FINTECH & PAYMENTS

1.1 Introduction

The payment landscape has evolved at an exponential rate over the past decade, with many payment methods rising to become some of the most used solutions across retail, eCommerce, B2B (Business-to-Business), and P2P (Peer-to-Peer) scenarios. In recent years, the design of new payments infrastructure, the emergence of Open Banking, and the flourishing of digital wallets have shifted the landscape.

Digital payments have become a standard option for consumers, as many economies shift away from physical cash. As a result, new ways of making digital payments are emerging, with digital wallets such as Apple Pay, Google Pay, Alipay and PayPal becoming accepted by a sizeable number of retailers, eCommerce platforms, and other businesses globally. However, the majority of these payments still go through existing card systems (such as Visa and Mastercard), meaning that retailers still rely on card-based infrastructure.

Juniper Research defines A2A payments as:

'A2A payments move money directly from one bank account to another bank account, without the need for additional intermediaries or payment instruments, such as cards. A2A payments can cover many use cases, such as P2P, P2B (Person-to-Business) or G2P (Government-to-Person).'

A2A payments are not a new development, with bank transfers having been possible across markets for a number of years. The novel aspect of A2A payments comes with recent developments to the payment market; payment digitalisation, combined with these payments becoming safer and quicker, has accelerated adoption.

It is worth noting that whilst A2A payments are made from bank accounts, not all pay by bank payments are A2A payments; pay by bank can refer to any payment initiated through a bank account, whether to another bank account or otherwise. This distinction is made since many use the terms interchangeably due to their similarities, and is worth mentioning given the specification of pay by bank being an available offering from many A2A vendors, highlighting the inclusivity of bank payments not being restricted to A2A use cases.

1.1.1 Types of A2A Payments

A2A payments can be classified into two types of payments:

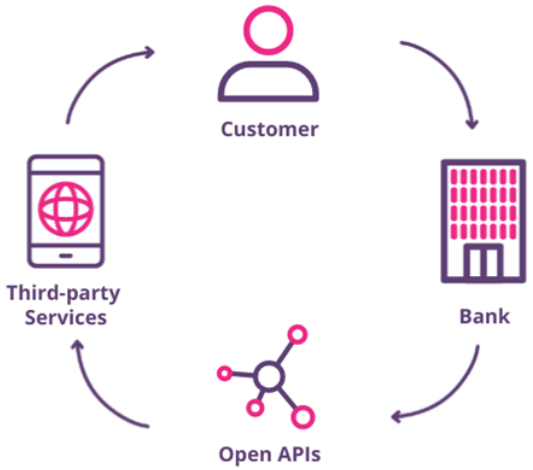
Push Payments: These payments are initiated by the account holder from their bank account to another bank account. They can be initiated through various channels, such as online banking, mobile banking apps, and so on. Once initiated, the payment is processed by the financial institution and sent to the recipient's account. These payments are typically one-time payments in the form of bank transfers, and APIs can be used to initiate payments by sending customers notifications or action prompts.

Pull Payments: Payments initiated by the recipient are pull payments, pulling the funds directly from the payer's bank account. For pull payments, the payer provides the necessary information and authorises the recipient to withdraw the funds. One of the most common use cases for pull payments is subscription services, where businesses can pull the required funds directly from a consumer's bank account at agreed-upon intervals. Compared to typical automatic payments, pull payments reduce the risk of payment errors, since the recipient is responsible for initiating the transaction and ensuring that the correct amount is withdrawn.

1.2 Open Banking & A2A Payments

Instant payment rails are not the only infrastructure powering A2A payments. Open Banking has a clear role in the development of A2A payments, providing a secure infrastructure in which banks and financial institutions share and exchange data with third-party providers. Previously, all A2A payments took place on legacy payment rails, but the advent of Open Banking technology and APIs (Application Programming Interfaces) has enabled consumers to use their banks, in combination with payment rails, to conduct instant A2A payments. This sharing of information is achieved through the use of APIs and is only done with the account holder's permission and consent. As a greater proportion of governing bodies develop Open Banking initiatives, the financial services ecosystem will encounter a vast amount of disruptive services as a result. PIS (Payment Initiation Services) are a type of A2A payments enabled through Open Banking technology. What sets PIS apart from typical A2A is the higher conversion rates and enhanced user experiences through API-driven features embedded in platforms. Whilst PIS payments are A2A payments from Open Banking technology, these payments still typically use real-time payment rails.

Figure 1: How Open Banking Works



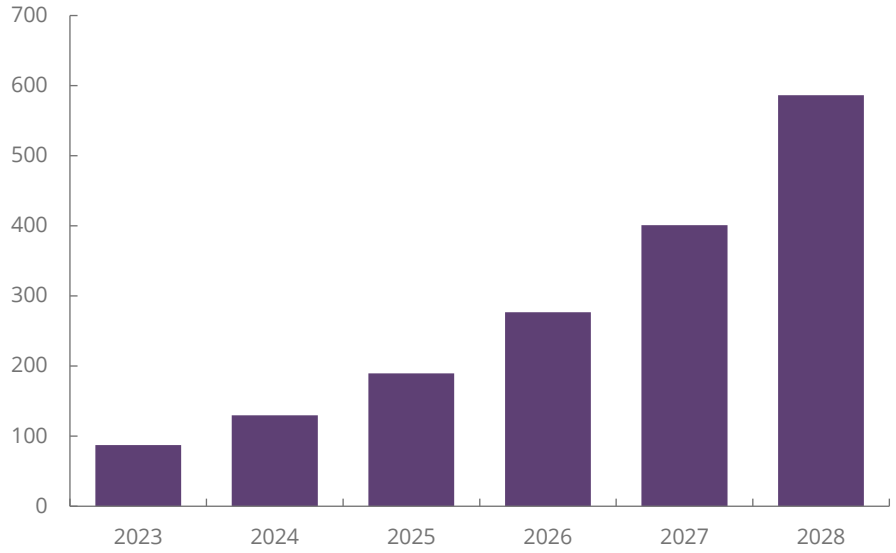
Source: Juniper Research

When Open Banking was initially introduced, it primarily facilitated and focused on the viewing of account data. The effective use cases of Open Banking have since been recognised and, as such, it is now being used to facilitate a range of financial services and processes within the market. Open Banking helps with integrating one service with another and enabling consumers to switch between financial service providers. Additionally, Open Banking includes the sharing of data such as transaction, payments, and account balances. This allows for the integration of various financial services originating from various sources; creating a seamless user experience. Embedded finance, one of many use cases of Open Banking, streamlines the user experience; combining financial services in one place. Open Banking also allows for the provision of A2A payments, to innovate further through the sharing of data.

The size of the Open Banking userbase has been steadily increasing over the past few years but, compared to many other recent fintech trends, has seen a considerably slower adoption by consumers and businesses. The key factors contributing to the slow adoption of Open Banking seem to be a lack of strong incentive for consumers to use A2A payments over cards in developed markets, combined with a lack of privacy and consumer protection knowledge for Open Banking payments. Some markets represent outliers, such as the UK, which reached over 11 million users in 2023, with 10.5 million transactions recorded in July 2023.

However, there are further issues in certain markets; the slow adoption rate is especially notable in markets that have not enabled legislation for the open sharing of data and information between financial institutions and Open Banking players. One example of this is Mexico; despite having one of the largest economies in Latin America, the country lags behind in terms of open finance frameworks, which are crucial not only for Open Banking, but also for embedded finance solutions such as BNPL (Buy Now, Pay Later). Without an adequate market for Open Banking to be enabled in, it will struggle to leave an imprint on the market compared to those countries which do facilitate the adoption of it.

Figure 2: Number of Open Banking Payment Users Globally (m), 2023-2028



Source: Juniper Research

An understated fact about Open Banking is that, given the range of offerings it is capable of facilitating, financial inclusivity is promoted as a result of these services. Within the context of A2A payments, Open Banking allows SMEs to receive instant payments from consumers. This in turn allows for a consistent cashflow that is not dependent on waits for settlements, which allows businesses to make financial decisions more easily, reducing their likelihood of going into debt or overdrafts, or having to utilise loans.

The use of APIs has promoted competition and innovation throughout the financial industry, with the breadth of APIs offered differing significantly between financial institutions. Payments and bank account information command the API market, with payments being especially popular due to the growth of specific payment functionalities that have been enabled over the past few years; BNPL, more efficient cross-border payments, instant payments, standing orders, scheduled payments, batch payments, and request-to-pay have been gaining significant market presence.

Open Banking information relating to bank account information has been instrumental for the A2A market, with the data being used for not only accessing bank accounts to make payments, but also for security purposes. Specifically, Open Banking utilises bank account data to validate account information, so that consumers can confirm that the money they are sending is being received by the right person, and is the right payment type and transaction values. This can be used to help make business decisions.

In terms of Open Banking APIs, payments represent the largest use for APIs. This is noteworthy, considering that A2A payments represent a significant proportion of all Open Banking APIs, signifying the use and demand for A2A payments within the context of the Open Banking ecosystem. Bank account management covers the second largest proportion of APIs; this is also important, given the demand for such data from A2A-related players and stakeholders, such as businesses, banks, and more.

1.3 Open Banking Regulations: The Impact on A2A Payments

PSD2 (Revised Payment Services Directive) is a European law that governs payment systems in the EU. It regulates access to consumer payment data by parties other than banks, and is intended to foster innovation and competition in the European payments market. The PSD2 has been fundamental in the development of Open Banking in the region; boosting its popularity and in turn making in plentiful and high-quality offerings being available through Open Banking.

PSD3, the revision of PSD2, is currently in the drafting stage; it is an evolution of the existing principles of data sharing and security, such as setting out more extensive SCA regulations and stricter rules on access to payment systems and account information. However, the pivotal area of improvement that the PSD3 aims to acknowledge is API quality. The proposals of the PSD3 include new requirements, minimum functionality, and measures against high latency. For Open Banking-specific changes, account servicing PSPs will have to provide information after receiving payments, as well as any updates like payment status via a dedicated interface, in real time, until the payment is completed or rejected. These companies must offer payment service users a dashboard that is integrated into a user

interface; allowing users to withdraw the data access of any given Open Banking provider, with the potential for a regulation of technical standards setting out a standardised list of categories of information to be disclosed in such dashboards.

Whilst there is not a clear timeline for when the PSD3 will come into effect, an EU trilogue is anticipated to occur around September 2024, following the European elections in June 2024. What can be certain is that according to the current Commission proposal, PSD3 shall be transposed into national law within 18 months, meaning that transposition is likely to occur in late 2025 to 2026.

In the UK, the JROC (Joint Regulatory Oversight Committee), which was established in 2023 and is responsible for overseeing the next phase of Open Banking in the country, published proposals for the future design of Open Banking in April 2024. The committee is consulting on the structure, governance, and purpose of new entities, and funding a new structure that may impact PSPs. Furthermore, the JROC proposed the creation of an Interim Entity, which will be a subsidiary of Open Banking Limited and exist in an interim regulatory phase before full transition to the Future Entity. Initially, the Interim Entity will progress the parts of the following JROC workstreams currently being carried out by Open Banking Limited, before they are passed on to the Future Entity:

- Facilitating availability and performance
- Mitigating risks of financial crime
- Ensuring effective consumer protections
- Improving information flows to third parties and end users
- Promoting additional services and encouraging innovative use cases

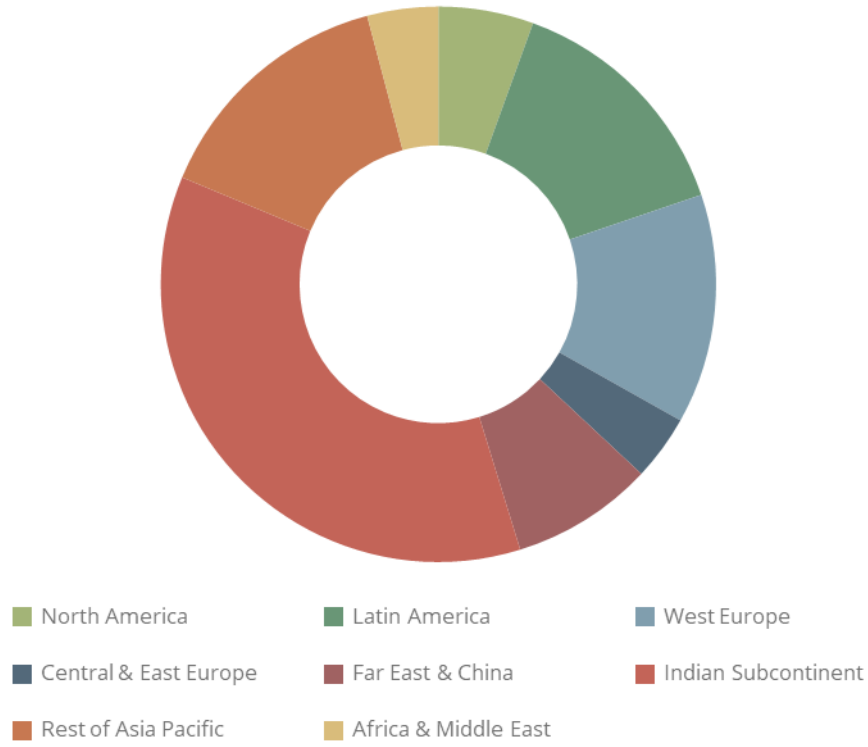
These recommendations from the JROC are designed to provide a solid foundation for the provision of Open Banking services in the UK, as well as aiding the transition into long-term regulatory frameworks for Open Banking. This will make the process of scaling to support potential future data-sharing schemes easier, such as for open finance initiatives. This publication from the JROC is perceived as being a significant milestone for Open Banking in the UK, and thus is imperative for stakeholders in the industry to engage with regulators in finalising relevant policies and establishing the route to a new governance framework for Open Banking. In terms of what this means for A2A payments, Open Banking-based solutions for the payment method will become much more appealing to fintechs and other FIs in the country if the legislation surrounding Open Banking is improved upon.

1.4 Forecast Summary: Total Volume of Consumer A2A Payments

It is forecasted that the total volume of consumer A2A payments will reach 60 billion transactions by 2029, increasing by 209% from 18 billion in 2024. A2A has gained an advantage over alternative payment methods, with instant settlements and cheaper transaction fees than cards increasing its desirability to merchants. This, alongside developments to instant payment rails and open banking solutions have facilitated the value of A2A payments.

- Open Banking developments have enabled the proliferation of A2A solutions. Notably, Variable Recurring Payments (VRPs), an A2A-specific solution in which customers connect authorised payment providers to their bank account, facilitate agreed recurring payments on the customer's behalf, within set limits. Consequently, businesses and banks have grown interested in VRPs due to their increased flexibility and transparency compared to direct debit. Open Banking-specific solutions such as VRPs represent a significant opportunity for vendors, with interest in the solutions increasing.
- Instant payment roll-outs are creating A2A-based opportunities, even in traditionally card dominated markets like the US. For example, FedNow, the US's most recent payment rail which launched in 2023, has an average transaction fee of 4 cents; making this solution advantageous when compared to cards, with an average fee of 3.5% per transaction. Therefore, as adoption grows and use cases multiply, cost-efficient A2A payments are likely to disrupt the card-dominated US market.

Figure 3: Total Volume of Consumer A2A Transactions (m) in 2029: $60 billion



Source: Juniper Research

Order the Full Research

Discover invaluable insights enabling vendors to capitalise on A2A developing opportunities in this brand-new report. Featuring rare data detailing the A2A market size across 60 countries, this extensive research also reveals 19 leading vendors in the Competitor Leaderboard. The report is a critical tool for shaping future strategies; its unparalleled coverage charts the future of such a crucially important and rapidly growing sector.

Key Features

Market Dynamics: Addressing challenges posed by the risk of fraud, the benefits of increasing regulatory involvement for Open Banking and instant payment rails, and how A2A payments compare to traditional card payments. Also includes analysis of the various segments comprising the A2A payments market and a regional market growth analysis on the current and future of these segments. Additionally, Juniper Research's Country Readiness Index assesses market readiness and growth across all 60 countries featured plus a future outlook.

Key Takeaways & Strategic Recommendations: In-depth analysis of key development opportunities and findings within the global A2A payments market; accompanied by strategic recommendations for stakeholders.

Benchmark Industry Forecasts: Includes forecasts for total volume and value of A2A payments across various segments, with a multitude of additional forecasts included for all of these markets, featuring total payment volumes, values, averages, and more, for in-store, online, P2P, and cross-border payments.

Juniper Research Competitor Leaderboard: Key player capability and capacity assessment for 19 A2A payment vendors via the Juniper Research Competitor Leaderboard, featuring strategic development opportunities for key players in the global A2A payments market.

What's in this Research?

1. **Market Trends & Strategies** – Detailed analysis and strategic recommendations for the global A2A payments market; analysing the various segments of the A2A payments market, and a Country Readiness Index assessing how each country stands in terms of their respective A2A payment landscapes.
2. **Competitor Leaderboard** – In-depth analysis of 19 vendor capabilities, via the Juniper Research Competitor Leaderboard (PDF).
3. **Data & Forecasts** –The forecast suite features a summary of the A2A payments market. The forecasts include the number of A2A users, transaction volumes, and values of key market segments, with the forecast period spanning from 2024 to 2029.
4. **Interactive Forecast Excel** – Highly granular dataset comprising over 22,000 datapoints; allied to an interactive scenario tool, giving users the ability to manipulate Juniper Research's data.
5. ***harvest* Online Data Platform** – 12 months' access to all the data in our online data platform, including continuous data updates and exportable charts, tables, and graphs.

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