



Feel good about payments

Innovation Insights

BNPL, A2A and Wallets

the present & the future

of payments

August, 2024

Innovation
Insights

Digital, AI, Data, Gen Z, Cards, Wallets, Fast pace, Modernity

Everywhere we look, the payment industry is taken by storm by an ever-multiplying number of factors, deeply impacting its nature, transforming the simple payment experience into a crucial branding and business success element. In our latest Open Finance article, we highlighted how some of these aspects can bring real-life innovative solutions.

Located at the core of these solutions lie three payment technologies that stand out through their transformative effect: Digital Wallets, Account-to-Account payments and By Now Pay Later. As innovative as they are, How does each of these drive the new payment era and reshape the way businesses are ran? Why can they be the key for business survival and why is this crucial for banks, merchants and customers all together?

Digital Wallets: The future of Money management

Seamlessly integrated in our daily lives, especially in the Asian markets, In 2023, wallets accounted for 50% of global e-commerce business (More than \$3.1T) and 30% of global POS spend (More than \$10.8T).

Apple Pay, Google Wallet, or Samsung Pay, among others, offer indeed a secure and convenient way to store and use funds without the need for physical channels.

1 - On the rise: According to Statista, mobile wallet users worldwide are expected to reach 4.4 billion in 2025, up from 2.3 billion in 2021. Why? Digital Wallets streamline transactions and reduce the need for carrying cards and cash. They provide easy access to financial services for those in remote or financially underserved areas, helping grow inclusivity.

2 - Enhanced Security: Digital wallets rely on robust security aspects like tokenization, biometric authentication, and tokenization. Its security standard help drive further adoption with digitally sceptical customers.

3 - Speed & Efficiency: Wallets are not just about paying; they offer a plethora of financial tools which makes them far more useful than cards or cash in that regard. Through the ability to track budget, integrate with loyalty program, offer AI-powered financial insights, wallets are on the verge of allowing a holistic financial experience for users.

A2A Payments: Direct, Efficient and Cost-effective

The revolution is already happening. Bypassing traditional intermediaries such as card networks, payment gateways or even money transfer agents, A2A payments are gaining critical traction. In North America alone, McKinsey believes A2A payments could cover \$200 billion worth of consumer-to-merchants business. Here is why:

1 - Treasury-friendly: A2A payments allow near real-time transfers, reducing then the settlement time compared to regular methods. For medium small businesses, especially in developing countries, this is a non-negligible advantage to help reach financial health, reduce transfer and payment costs, and have better, based on real-time activity, business understanding.

2 - Cost Reduction: By eliminating interchange fees, but also through a reduction of fraud and chargeback cases, as A2A transactions are irrevocable, and significantly more secure, consumers, merchants and banks can all find a way to make significant cost reductions via A2A.

3 - Inclusivity enabler: According to Accenture, 33% of all A2A payments come from Latin America. A2A has indeed enabled underbanked nations to improve financial inclusion, move past cards and join directly digital wallets for the population. The Latin American examples, such as PIX in Brazil, show that populations and merchants could very much be open to start moving cash, so long as the alternatives aren't expensive and penalizing margins.

BNPL: Redefining consumer spending and credit

Buy Now Pay Later services have presided over popularity surges unlike any other, offering consumers flexibility, convenience, and financial management tools allowing them to have access to new type of services and products.

BNPL global transactions value has risen from \$62 billion in 2019 to \$316 billion in 2023, with a forecast to reach \$452 billion by 2027. Furthermore, Accenture mentioned in a survey that 62% of consumers using it could replace credit cards by BNPL fully, while 40% of consumers wish BNPL was a full-scale banking product offered by their institutions. BNPL offer indeed a range of advantages for both consumers and business.

1 - Consumer Flexibility: BNPL allows consumers to spread the cost of their purchases over multiple instalments, often without interest if paid on time. In an era, market by economic volatility, complicated job markets and looming recessions, the flexibility it offers cannot be discarded as consumers refrain on cutting on spending habits.

2 - Attracting new consumers: Retailers benefit from BNPL by attracting customers who might otherwise be hesitant to make a purchase. The option to pay in instalments can increase conversion rates and average order values, driving sales growth.

3 - New banking product: BNPL is a fintech realm so far. Banks have indeed yet to make a major entry. However, banks often charge interest on their BNPL services, though typically at a lower rate than their credit cards.

Nevertheless, their entry into the BNPL market could introduce much-needed stability to a largely unregulated sector.

How do the new technologies drive the new financial era?

The relationship between digital wallets, A2A payments, BNPL, and financial development is deeply intertwined, with each technology contributing to a more connected, efficient, and user-centric financial ecosystem.

1 - Data-Driven Personalization and Financial Inclusion: Open Finance allows consumers to share their financial data across various platforms securely, enabling personalized financial services.

Digital wallets, when integrated with Open Finance frameworks, can offer users customized financial products, such as tailored savings plans, investment options, and spending analysis.

For example, a farmer in rural Africa could receive personalized advice on managing crop revenues or access microloans directly through a digital wallet based on their transaction history.

2 - Cross-border payments: In emerging markets, cross-border transactions often involve high fees and long processing times. A2A payments can facilitate real-time, low-cost international remittances. For instance, migrant workers could send money back home instantly, with the funds automatically distributed across family members' digital wallets, bank accounts, or even used to pay for local services.

3 - Empowering Small Businesses: Small businesses often struggle with cash flow, especially in volatile markets. BNPL services, supported by Open Finance data for instance, can offer these businesses flexible financing options for purchasing inventory or equipment. The integration could also enable businesses to offer BNPL options to their customers, driving sales and growth.

4 - Real-Time Financial Monitoring: BNPL plans, and digital wallets specifically can enable real-time monitoring of financial activities. For example, a consumer could receive alerts on overspending, upcoming bill payments, or better investment opportunities based on their current financial status, all within the same platform. This proactive approach can help prevent financial issues before they arise.

Conclusion

The synergy between digital wallets, A2A payments, BNPL, and the growth they are currently experiencing creates a powerful foundation for the future of financial services. Through these technologies, fintechs, banks, merchants and consumers alike can deliver real-world impact across various sectors, from enhancing financial inclusion to providing tailored credit solutions and enabling seamless transactions. This interconnected ecosystem has the potential to revolutionize how individuals and businesses manage their finances, offering greater transparency, control, and accessibility in the process.

HPS /

We eagerly await your insights!

Please don't hesitate to contact us at businessinnovation@hps-worldwide.com

We're all ears and ready to engage in meaningful discussions.

Designed by HPS Creative Studio