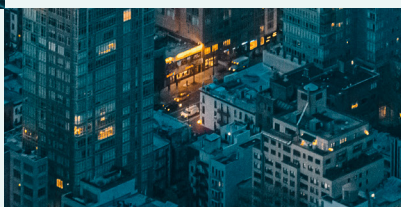
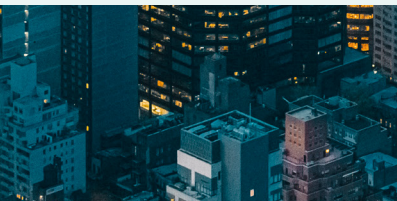


# Beyond borders: a new era for digital payments

How digital disruption is shaping the financial landscape



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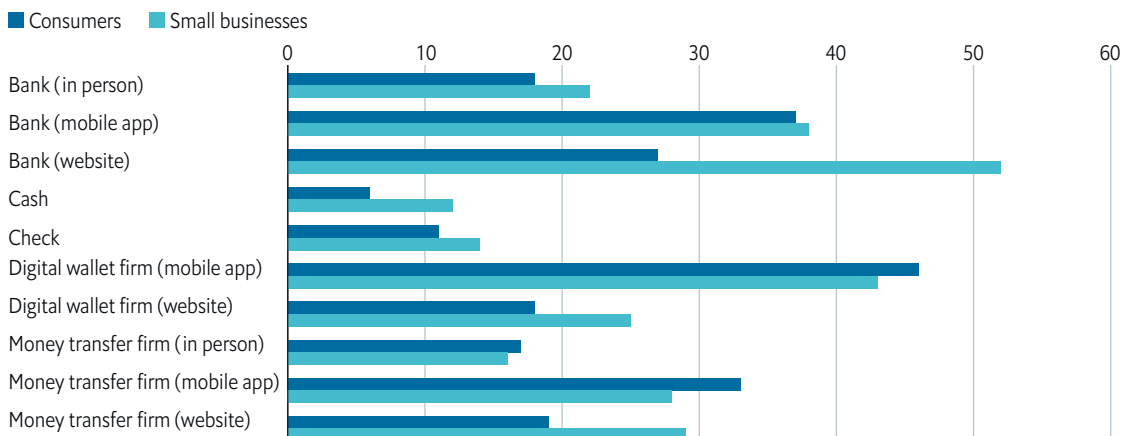
# Beyond borders: a new era for digital payments

A year ago, we published a white paper, *Going digital: payments in the post-Covid world*, that showed how digital channels were replacing traditional modes of payments across the world, amid greater uptake of mobile wallets and other forms of digital payments. EIU has now developed a new dataset, along with five-year forecasts, confirming these trends. This white paper offers an overview of our forecasts for digital payments, as well as the accompanying stagnation of ATM numbers and the mixed outlook for card payments. It also looks at the new frontier for disruption: cross-border payments.

## Key forecasts

- Following a surge during the pandemic, when lockdowns forced consumers online, growth in digital payments will soften during our five-year forecast period (2022-26).
- The number of ATMs will stagnate or decline, while debit and credit cards will struggle to maintain market share as mobile payment platforms gain more traction.
- While digital disruption to domestic payments continues, the ongoing Russia-Ukraine war will cause parallel disruption to cross-border payment systems.
- Countries will seek to interlink their national fast-payments systems, reducing intermediaries and bringing down the cost of sending money abroad.
- Countries across Southeast Asia are in the process of interlinking their fast-payments systems to allow travellers across the region to purchase goods and services by scanning quick-response (QR) codes.

**Means for making cross-border payments**  
 (% of respondents during Dec 2nd 2021-Jan 7th 2022)\*

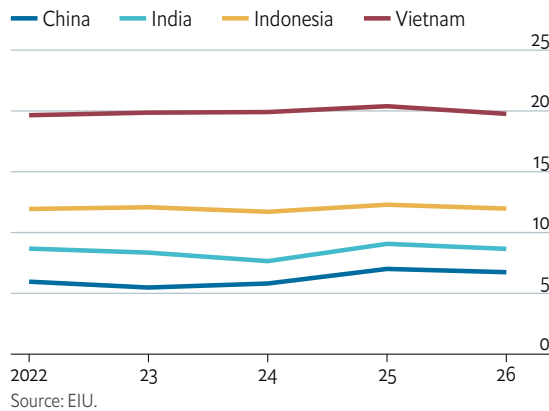


\*Based on a survey of 7,586 consumers and 3,074 representatives of MSMEs across Brazil, Canada, Chile, China, Colombia, France, Germany, India, Mexico, Saudi Arabia, Singapore, South Africa, the UAE, the UK and the US. Sources: Mastercard; EIU.

**Growth in domestic digital payments will slow, largely owing to strong base effects**

Demand for online services grew exponentially during lockdowns early in 2020, and remained high in 2021 across most markets even after restrictions were removed. The rise in online traffic has compelled businesses to set up digital marketplaces and improve customer experience on their platforms, spurring fintech firms to come up with new payment solutions. **The digital boom has given rise to embedded finance, the integration of financial services with non-financial offerings.** It has also spurred the development of banking-as-a-service platforms, which allow non-financial companies to offer financial services through linkages with banks. All of these developments have made digital payments synonymous with mobile payments, with the volume of online payments growing rapidly over the past few years, with a massive surge in 2020-21.

**Mobile and internet banking transactions will soften in 2022-26**  
(volume of transactions; % change year on year)



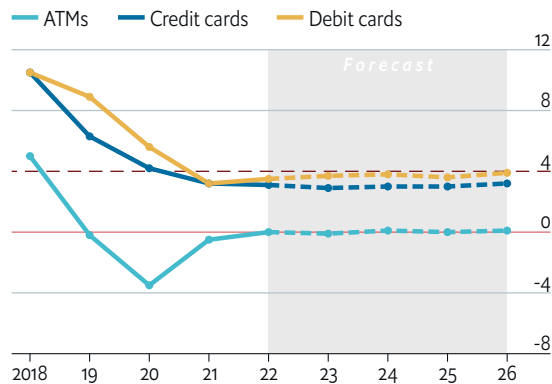
Over our five-year forecast period (2022-26), growth will moderate somewhat, mainly owing to a strong base. For example, in China, we expect annual growth (by volume) of mobile and internet banking transactions to average 6.2% in 2022-26, while Indonesia will experience greater average growth rates of 12%. Meanwhile, in terms of value of mobile and internet banking transactions, we expect annual growth to average about 0.7% in China and 5.6% in Indonesia over the five-year period. The growth in payments is in line with our forecast for retail sales, with e-commerce sales volumes growing by an annual average of 6.6% in China and 18.3% in Indonesia in 2022-26.

The emergence of smartphone-driven digital payments has spawned growing demand from customers for improved convenience and instant settlement of transactions, including the development of real-time payments. The deployment of fast-payments systems, as well as the move to standardise QR codes of different digital wallet operators, has also helped more merchants to accept digital payments, which were otherwise costly when executed via cards on point-of-sale (POS) machines.

As a result of rising digital payments, use of cash and traditional cards will come under pressure in the coming years. According to EIU's new data series, the total number of ATMs across the world increased by an average of a mere 0.2% between 2018 and 2021, while the number of credit and debit cards went up at a faster pace, of 6.1% and 7.1% respectively. **We forecast that growth in ATMs will remain flat during 2022-26, while that of credit and debit cards will moderate to 3% and 3.7%, respectively.**

### Growth in ATMs will remain flat while card adoption will moderate

(% change year on year)



Source: EIU.

While cards are widely linked to digital payments in established markets such as the US and the EU, the two are increasingly in competition in the Asia-Pacific region, where card use is less embedded. We predict that cards will lose out in this region as digital payments platforms link directly to bank or mobile phone accounts. **Even in card-dominated countries, established companies will have to manoeuvre adroitly to avoid being outflanked by fast-payments systems.** However, as we predicted last year, one factor in favour of card-linked payments will be additional benefits such as insurance and payback schemes. In addition, companies such as Mastercard and Visa are

already making strategic acquisitions of technology companies to enhance their competitive edge.

### Legacy cross-border systems face several challenges

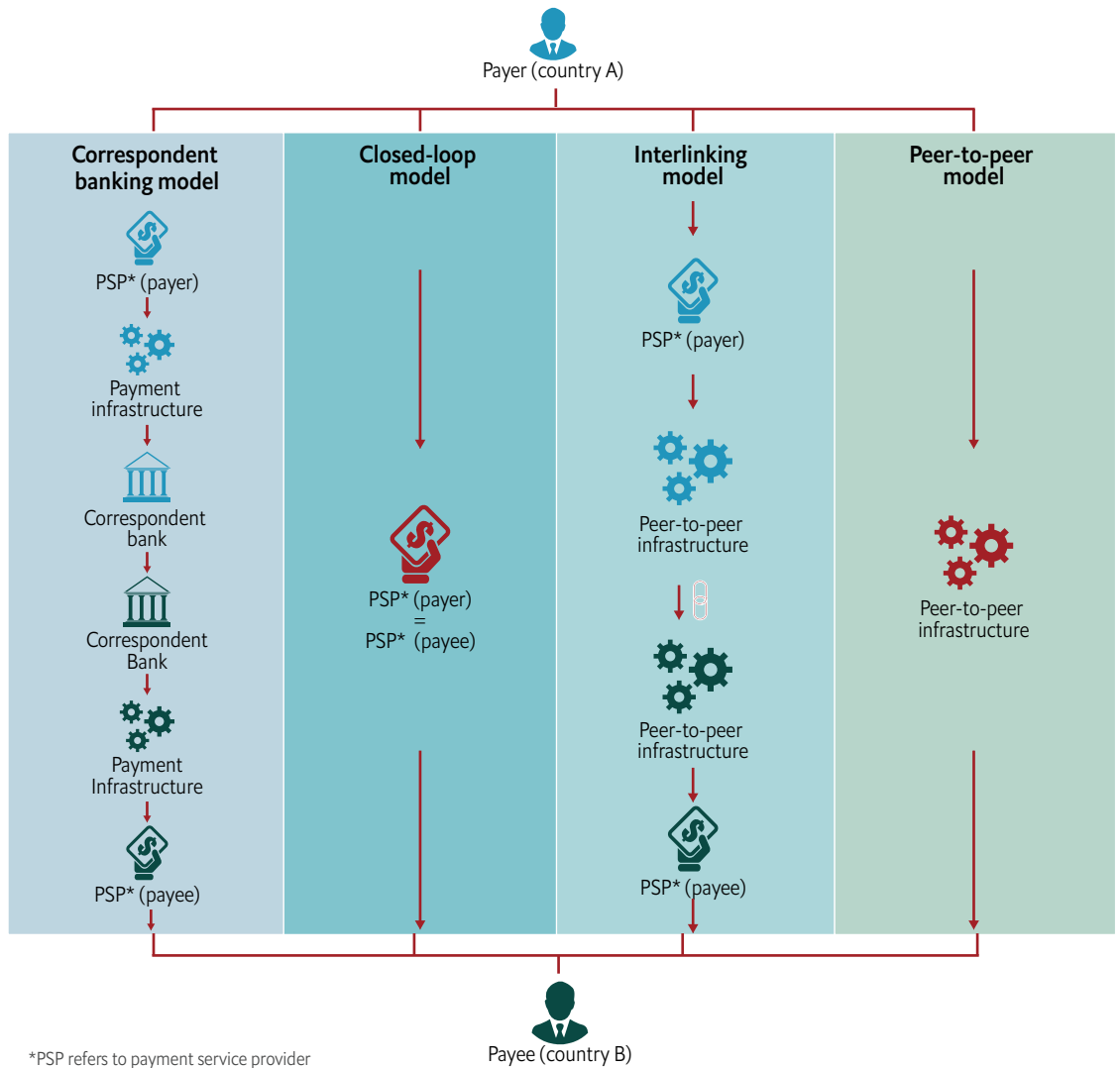
While the pandemic has fuelled the growth in digital payments and online retail, this shock was largely confined to the domestic payment flows tracked by our data. However, 2022 has brought another shock—the war in Ukraine—and we expect this to disrupt cross-border payment flows over our forecast period. **Following the digital disruption in local retail payments, customers are increasingly demanding a similar revolution in cross-border payments,** driven by real-time settlements, application programming interfaces (APIs; software interfaces that allow two different software applications to communicate with each other) and open banking, a system that allows users to securely share financial data with third-party applications.

Currently, most cross-border payments still travel through the old-fashioned correspondent banking network, where groups of banks communicate with each other through a cumbersome network of correspondent banks to facilitate fund transfers. This flow is underpinned by the Society for Worldwide Interbank Financial Telecommunication (SWIFT) financial messaging service. This Belgium-based network is used by more than 11,000 financial institutions, including banks and securities firms, from over 200 countries.

# BEYOND BORDERS

## A NEW ERA FOR DIGITAL PAYMENTS

### Various cross-border payment arrangements



### Challenges with existing systems for cross-border payments

	<b>High costs</b>	High fees, different methods of payment, exchange-rate volatility and compliance requirements add to the costs.
	<b>Longer settlement time</b>	Various checks and controls to eliminate money-laundering and frauds add to the transaction settlement time.
	<b>Cumbersome process</b>	Foreign-exchange settlement and involvement of different institutions make cross-border transactions a complex process.
	<b>Lack of standardisation</b>	Cross-border payments are regulated by different national institutions, which lack standardisation.

Source: EIU.

However, following the outbreak of the Russia-Ukraine war, the US and other major powers decided to remove Russia from the SWIFT network and even ban card payment channels from operating in the country. This move has added to trends that were already apparent. **Even before the war, SWIFT had encountered criticism for its relative inflexibility and lack of transparency.** Even more worrying is the retreat of correspondent banks, the cornerstone of the SWIFT system. Data from the Bank for International Settlements shows that correspondent banking relationships declined by 25% between 2011 and 2020, even though the value and volume of cross-border arrangements increased substantially over the same period.

Russia, China, and India do have nascent SWIFT alternatives—respectively the System for Transfer of Financial Messages (SPFS in its Russian abbreviation), Cross-border Interbank Payment System (CIPS) and Structured Financial Messaging Solution (SFMS)—that they can turn to avoid similar sanctions and disruptions in future. But setting up and scaling a full-fledged alternative bank-messaging system would be expensive and time consuming. It would also have limited real-world impact, given the prevalence of dollar-denominated cross-border flows. SWIFT will remain the dominant network, as long as countries and lenders come together to improve the Belgian network.

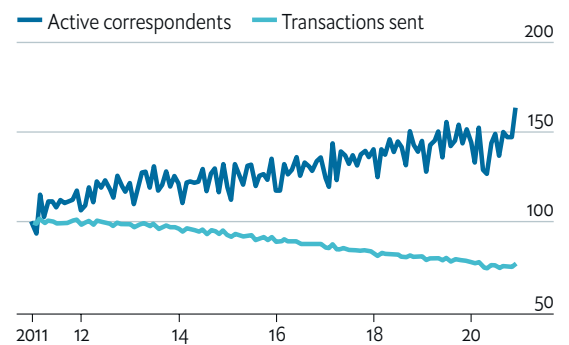
### Governments will encourage development of cross-border payments linkages

However, we also expect increasing involvement from government entities to facilitate the development of the fintech sector, promote financial inclusion or aid the flow of remittances from overseas workers. Singapore (with PayNow) and Thailand (PromptPay) were the first countries to interlink their fast-payments systems in April 2021. More countries, especially in Asia, have since unveiled plans for similar tie-ups. This process will also be facilitated by the development of central bank digital currencies. These digital currencies aim to provide efficient and inclusive payments services—which traditional systems have failed to provide—and also emerge as trustworthy alternatives to private projects such as stablecoins, cryptocurrencies that (in theory) peg their value to another currency or commodity.

Meanwhile, countries like Russia, China and India could encourage international trade denominated in their own currencies, or enter into bilateral trade agreements—between the rupee and ruble, for instance—to avoid settlements in dollars or euros. Although the US dollar's dominance of international trade will remain unchallenged in the short and medium term, **emerging powers in Asia will try to reduce the greenback's influence** to avoid runs on their foreign-exchange reserves and mitigate the impact of any future disruptions.

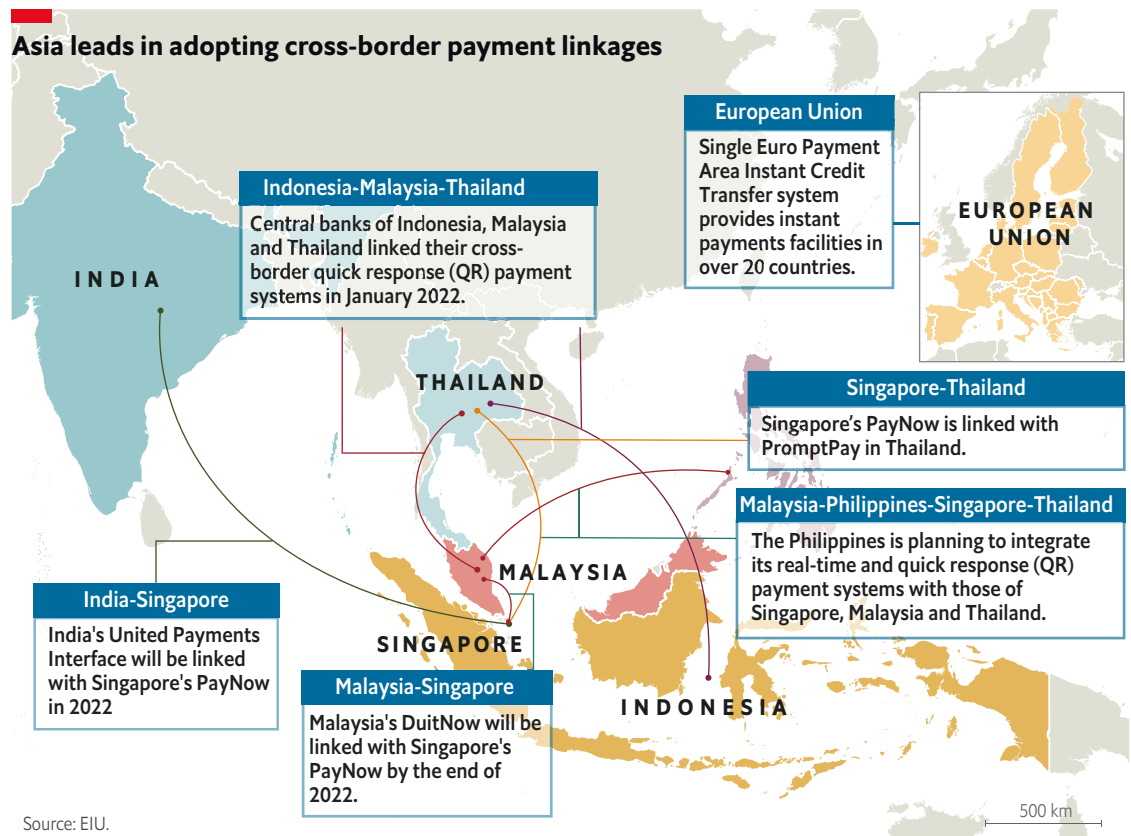
#### Banks' correspondent relationships are falling as SWIFT messages increase

(Jan 2011= 100)



Sources: Bank for International Settlements, SWIFT, EIU.





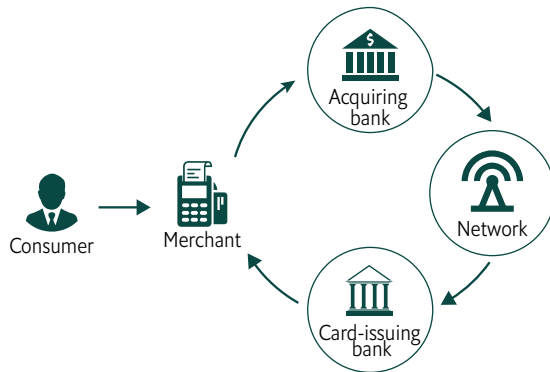
### APIs, tokenisation and blockchain will together become the new normal

As well as challenging SWIFT, disrupting cross-border payments will mean adopting innovative solutions and emerging technologies, including blockchain, APIs and tokenisation.

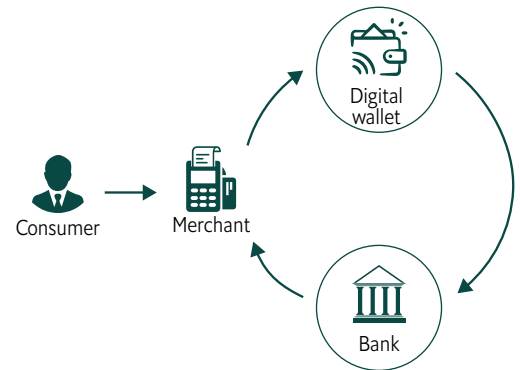
- **APIs** have been a game-changer for retail payments, providing end-to-end tracking of payments and confirmation of transactions to all parties involved. They enable interaction across the digital marketplace, higher levels of transparency, and a seamless experience for both customers and merchants.
- **Tokenisation**, which creates a unique code for every single transaction conducted through an API, and blockchain technology, have also emerged as a major way to ensure security, improve efficiency and raise the transparency of payments.
- **Blockchain technology** employs encrypted distributed ledgers that eliminate the need for any intermediaries but still provide verification of transactions in real time.
- As with domestic payments, **real-time payments** will also become a cornerstone for the acceleration of cross-border payments.

### Digital wallets eliminate legacy intermediaries

#### Card networks



#### Digital wallets



Sources: Lazard Asset Management; EIU.

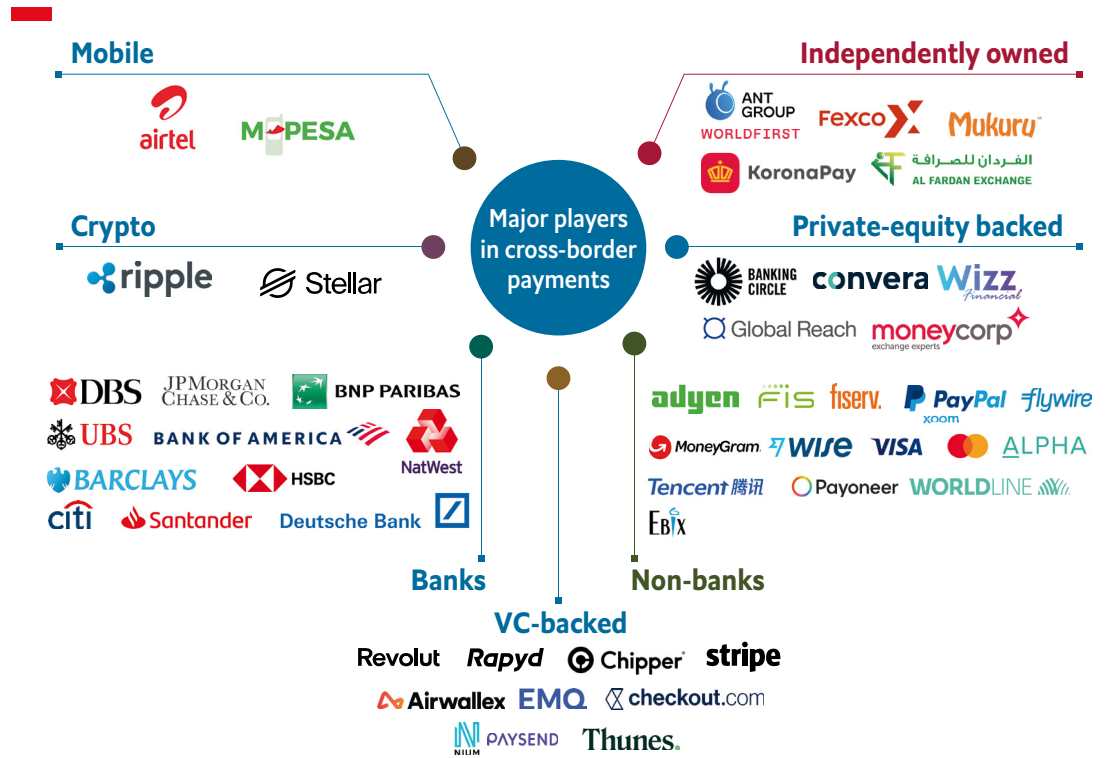
### Digital disruption comes to cross-border payments

The coronavirus pandemic has changed people's lifestyles and their interaction with the world, leading to a growing emphasis on data privacy, faster payments, transaction security and a seamless experience for digital services. From migrant workers sending money to their families at home to merchants paying bills to their international suppliers, cross-border payments are too vital to be passed over for technological disruption.

Following the success of the new technologies in domestic transactions, which gave the rise to promising fintech companies, including super-apps, employing them for cross-border transactions will be a natural progression. Asia is already home to a thriving band of cross-border fintech firms, such as China's Alipay, Malaysia's BigPay, Singapore's InstaReM and Thailand's TrueMoney. In North America, meanwhile, PayPal has grown in leaps and bounds, even as traditional money-transfer firms, such as Western Union, are trying to incorporate newer technologies.

# BEYOND BORDERS

## A NEW ERA FOR DIGITAL PAYMENTS



Sources: FXC Intelligence; EIU.

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