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Platform

A Temenos white paper

Payments in 2023 and Beyond

Key trends for Asia Pacific

Contents

Towards the latter part of 2022, the world started making a recovery from the pandemic with many countries now opening their borders. With this re-opening, countries also facing global macroeconomic & geopolitical challenges. Higher inflation is driving central banks to take measures which will result in increase in interest rate margins and drive higher income for banks. While there are challenges, we have seen a rebound in Payments revenue across different markets in 2022. A recently published McKinsey Global Payments report for 2022 states that growth in Payments revenue for the year 2021 was higher than expectations and reached a high since 2017. The report also predicts that there will be a much larger revenue growth in Payments in the coming years. Asia-Pacific will see the highest growth in cashless transaction volumes which will constitute more than 50% of global volumes as per PwC Strategy & Global Payments Model 2021. While revenue will be on the rise, incumbent banks will be impacted by the rise of alternate payments methods from Big Techs, Telecom giants and retailers.

There are a number of initiatives taking place globally and in the respective domestic markets which will drive this growth. In this article, let's look at some of the key trends in Asia-Pacific market which will dominate in 2023 and beyond.

Key trends to watchout for APAC payments (2023 and beyond)

- ISO2022 Migrations
- Launch of New Services
- Central Bank Digital Currency (CBDC)
- Payment-as-a-Service
- ESG Initiatives

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ISO20022 Migrations

ISO2002 migration for global schemes like SWIFT and the domestic payments schemes across different markets will continue to dominate in 2023. There are multiple benefits from this shift to ISO20022 and the transition will lead to harmonization in the payments industry and increase inter-operability between different payment rails. Many countries across the world and especially in APAC are adopting ISO20022 standards for RTGS payment schemes like Hong Kong with CHATS, Singapore with MEPS+, Philippines with PhilPaSSplus, Australia with RITS etc. Banks and Financial Institutions which are participants to these payment schemes need to comply with these migration requirements.

Launch of New Services

We will see countries continuously launching new services to digitise their economies and move away from legacy infrastructure. As payment volume grows, new services like Instant Payments, Request to Pay or Mandate Payments will find use cases in many markets. Australia, Hong Kong, Malaysia etc already have plans to roll out R2P services and countries like Indonesia will be rolling out the new Instant Payment service soon. SWIFT has recently launched SWIFT Go for low value cross border payments. This service allows consumers to send payments in seconds with full transparency and strong security. These new initiatives will require Banks to modernise their legacy payments infrastructure to provide services to their customers.

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Central Bank Digital Currency (CBDC)

Many countries are now launching a pilot for CBDCs. CBDCs are digital tokens issued by a central bank and are pegged to the value of that country's fiat currency. The major difference from cryptocurrency is that CBDCs will be backed by the central government. While this is still in the pilot phase, countries are evaluating use cases for wholesale transactions in particular around cross-border payments, securities settlement and retail CBDCs with progress happening faster than predicted. Technical challenges around interoperability will take a while to solve, but we expect pilots will turn into more production use cases in the next 12 months, with particular progress being made with regards to the settlement of securities as digital asset exchanges increase activity. These private-public sector collaborations and use cases will continue to drive progress under the purview of regulators, supporting the continued evolution of more widespread adoption in the coming years. The Monetary Authority of Singapore and the Hong Kong Monetary Authority have been particularly proactive in CBDC initiatives, with APAC being one of the leading regions driving this forward.

Cloud/ Payments-as-a-Service

Migration to Cloud based platforms will be another major shift we will experience in 2023 and beyond. As volumes rise, cloud platforms enable payment providers with the required scalability, resilience, and high availability in a 24*7 environment. Banks are not only looking for migration to cloud platforms but also to outsource payment processing to companies which can offer payments-as-a-service to lower their operational & maintenance costs.

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Environment, Social and Governance (ESG) Initiatives

ESG is more than a buzz word now and the race to carbon zero is truly underway. Many regulatory bodies across the globe are defining guidelines for institutions to become ESG compliant. The scope for ESG includes Environment, Social and Governance considerations for an economy. Specifically in payments, we will see Banks working with external parties to provide greener products and help increasing customer awareness about environment impact on transactions. More social and governance initiatives will be launched by banks as many CEOs have ESG compliance as part of their KPIs.

Conclusion

2023 will be an interesting year for the APAC Payments market. We will see many new initiatives (both global and domestic) going live. Digital Payments volumes will continue to grow and while overall payments revenue will grow, the fee-based revenue model will see a decline. Consumers will be looking for a seamless payments experience without any breakdown and banks which will not be able to offer such as service will see an erosion in customer loyalty. Banks will also lose some revenue share to alternate payment methods from big techs, fintech players etc. Payments are an integral part of any digital banking initiative and to remain relevant in this competitive landscape, banks need to invest on technologies which can bring down their running costs, are scalable to support growth in volumes and flexible to adopt to new services and changing standards.

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Rishi Sarin is a Business Solutions Manager at Temenos, with more than 16 years of experience in Core Banking, Digital Banking and Payments space. He specializes in driving banks through large-scale transformation projects and is greatly involved in various stages of project lifecycles with leading Tier 1,2 and Challenger banks across all continents. With deep understanding of Temenos products, Rishi is currently responsible for leading the entire pre-sales activities of Temenos products in ASEAN and Indian Subcontinent region.

About Temenos

Temenos (SIX: TEMN) is the world's leading open platform for composable banking, creating opportunities for over 1.2 billion people around the world every day. We serve two-thirds of the world's top 1,000 banks and 70+ challenger banks in 150+ countries by helping them build new banking services and state-of-the-art customer experiences. The Temenos open platform helps our top-performing clients achieve return on equity three times the industry average and cost-to-income ratios half the industry average.

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