

# Global payments trends

## Considerations for corporate treasurers

January 2024



# Introduction

Corporate treasuries operate in a dynamic global business environment. The convergence of expanding digital technology, changing business models and evolving payment infrastructure is creating great opportunities for corporate treasuries. Given this convergence, what should treasurers be considering as they look to build greater efficiency in their cash management and working capital processes?

Payments are growing, and digital payments are growing exponentially. Global cashless payment volumes are set to increase by more than 80% from 2020 to 2025, from about 1tn transactions to almost 1.9tn. They will almost triple by 2030, according to analysis by PwC and Strategy&<sup>1</sup>.

What this means for many treasury teams, is an increased focus on solutions and change management to address some of the pain points. This includes centralising liquidity and adopting forecasting tools, while also rationalising accounts and reorganising treasury organisations with payment factories, shared services centres and in-house banks.

## About HSBC Treasury Solutions Group

Our Treasury Solutions Group (TSG) brings ideas, expertise and experience to businesses who are actively seeking to transform their treasury. We support treasurers and encourage them to apply these ideas and strategies in practice during their business transformation journeys.

To start engaging our Treasury Solutions Group, contact your HSBC representative.

<sup>1</sup> PwC – Payments 2025 & beyond - Navigating the payments matrix – Charting a course amid evolution and revolution, 2021

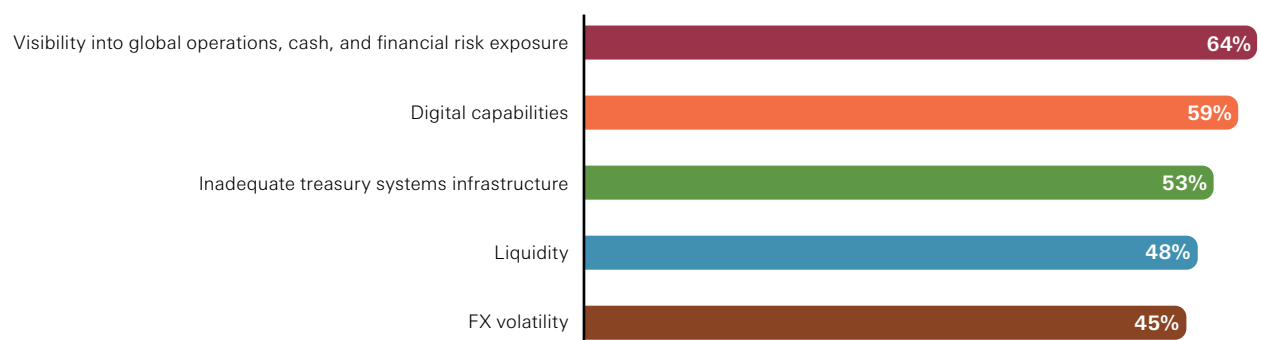


# Introduction

Treasuries are focusing on the improvement of their FX management and governance to reduce international exposure risks. There is a need to address inefficiencies in their supply chains by adopting working capital tools, such as corporate cards to manage tail end disbursements alongside supply chain financing. Teams are also looking to optimise their reconciliation processes by implementing corporate treasury APIs, open banking, and comprehensive receivables solutions.

Corporate treasuries are also looking to increase the straight through processing of payments by carrying out modernisations of enterprise resource planning (ERP) and treasury management system (TMS) infrastructures, as well as migrating to the global ISO format and using tracking on cross border flows with SWIFTgpi, all while keeping a keen focus on fraud management and cybersecurity. As companies review their overall treasury efficiency, they are proactively addressing their sustainability, and environmental, social and governance (ESG) considerations have become a key part of payments and treasury management.

## The Deloitte Global Treasury Survey<sup>2</sup> further highlights the key challenges among Treasurers:



2 Deloitte Global Treasury Survey November 2022

# Payment infrastructure

Government regulation has an important role to play in payments both globally and regionally. Promoting growth in a digital and real-time environment is at the heart of building a regulatory framework which protects both consumers and corporates.

The G20 has made cross-border payments a priority, addressing barriers such as high costs, speed of transactions, access to payment systems and lack of transparency. The Financial Stability Board (FSB)<sup>3</sup> has put in place a prioritisation plan that includes under “Data exchange and message standards” the ISO 20022 format harmonisation requirements, as well as the modernisation of the different payment infrastructures across multiple geographies.

The adoption of the ISO 20022 standard supports the inclusion of richer, better structured transaction data in payments messages, for example ultimate debtor and ultimate creditor for complex treasury organisations. This will lead to less manual intervention, more accurate compliance processes, higher resilience, and improved fraud prevention measures. The requirement in certain markets to include further payment details, such as purpose of transaction, shows the need for global payment formats that can support local and regional reporting requirements.

Governmental regulation and guidance in Asia have been, and continue to be, active in shaping the next generation of payment infrastructure. This impacts the large-scale deployment of real-time payments, the rationalisation of payment rails, the migration to SWIFT ISO 20022, and the emergence of Central Bank Digital Currencies (CBDCs) and their use cases. To take real-time payments as an example, a common motivation of the central banks and payment systems is to promote social inclusion of the unbanked population, but equally to ensure the development of digital commerce and innovation in a holistic and sustainable manner.

There is also increased adoption of real-time payment schemes across the globe, with more than 60 live markets. Real-time transaction volumes around the world have grown 63.2% in 2022 to reach a new high of 195 billion transactions, according to a recent report by payment software company ACI. By 2027, real-time payments are expected to account for 27.8% of all electronic payments globally, up from 18% in 2022<sup>4</sup>.

- 3 G20 Roadmap for Enhancing Cross-border Payments: Consolidated progress report for 2022 - Financial Stability Board (fsb.org)
- 4 ACI Worldwide: It's Prime Time for Real Time 2023



# Payment infrastructure

In Europe, there is a clear strategy for regulations to promote European retail solutions, to oblige a full deployment of instant payments, to improve the experience of cross-border payments beyond the EU, and to support innovation and digitisation. As of May 2023, instant payments accounted for 14% of all electronic credits in the SEPA zone with a reachability at 62% of all SEPA payment service providers (PSP) (71% of PSPs in EUR markets)<sup>5</sup>.

European instant payments legislation is expected to be deployed by the end of 2023 with an agreed timeline. This legislation is intended to address the slow adoption of, and barriers to, SEPA instant payments, such as rejection rates, sanctions screening and the need for payee confirmation. This legislation should inspire confidence and allow for added value solutions to emerge.

In Asia, there is a clear focus on the interoperability of accessing both bank accounts and e-wallets, given the greater use of e-wallets for transactional banking. Additionally, countries such as Singapore are creating links to other real-time payment schemes in the region to drive efficiency with regional cross border payments.

In the US, real-time payments have been active since 2017 with the Clearing House's Real Time Payment network and will be further enhanced with the Federal Reserve's FedNow Service, which offers instant payment services for banks and credit unions. The objective of the Fed is to make real-time payments more accessible to consumers and businesses, as well as provide new tools to identify and combat fraud, aligning with other regions in the world.

<sup>5</sup> EPC scheme to make real-time payments in SEPA | European Payments Council



# Today's treasury technology

Treasurers see cash flow forecasting as a pain point that they would like to manage better, moving away from manual or semi-manual processes. This is notably an issue for organisations with international footprints where the collection of data is cumbersome and delayed. This then leads to inaccurate visibility on incoming flows and FX exposure management. The objective then becomes one of automating the forecasting process, reducing manual inputs and errors, and adopting a rules-based logic. Artificial Intelligence (AI) is increasingly being used to identify data patterns, including both internal and external data.

Another technology that has value is Application Programme Interface (API) technology for day-to-day activities. APIs can provide real-time connectivity between corporates and banks, instantly accessing account data and initiating payments. This automation brings efficiency, speed, and control to the treasury teams.

For example, one of our customers needed real-time account information to release goods to customers more rapidly. It used corporate treasury APIs to consume account data, replacing end-of-day statements. Another customer adopted corporate APIs for the initiation of real-time payments in a gig economy model. The key point when it comes to technology and cash management solutions is understanding the customer's ecosystem, addressing the pain points, and creating an optimised end-to-end process.

The better management of cyber security and fraud risk is a constant discussion and an integral part of the treasury function. There are technology solutions that can centralise treasury functions, review entitlements, and create approval processes. Adopting API technology, as well as SWIFTgpi tools, to track and monitor flows is another way to combat fraud. Companies also need to adopt a training discipline to build internal awareness on how to prevent cybersecurity attacks such as phishing, malware, and business email compromise.





# Changing business models & demographic influences

One significant change for many companies is the change in consumer preferences. Consumers are embracing digital channels for purchasing products, and they expect a seamless payment experience when transacting over digital channels. These new business models are leveraging digital platforms not only to connect with existing customers, but also to reach new customers and global markets.

Research carried out for HSBC by polling company Toluna found that businesses expect technology-driven efficiencies and the expansion to new digital platforms to be two major growth drivers. Businesses are anticipating growth and the majority are expanding internationally, according to this HSBC survey of 2,100 global mid-market firms with a turnover of between USD10mn - USD500mn, across 14 markets<sup>6</sup>. Despite these growth expectations, half of the respondents also expect international trade to be more difficult.

Global cashless payment volumes are set to increase by more than 80% from 2020 to 2025, with Asia having the most significant 109% increase in cashless payments, and the least change expected in the US (43%) and Canada (35%)<sup>7</sup>.

HSBC Global Research's Gamechangers Report<sup>8</sup> in May 2022 highlighted how the global economy is influenced by the changes in population and demographics in three key areas:

- ◆ Globally, populations are ageing at the fastest pace in history. The jump in birth rates in the aftermath of the Second World War in much of the world now means many of those babies are now hitting retirement age.
- ◆ Generations are very different. Most people under the age of 40 have grown up with digital technology, while their parents or grandparents are much less likely to be online. Younger generations are much more worried by climate change and they may be more likely to be left leaning politically. These cohort effects will matter in the coming years as today's twenty and thirty-somethings become the core of the workforce and consumer pool over the rest of this decade.
- ◆ Demographic challenges in the West and still-rising populations in the emerging world will likely keep emerging market consumer demand growing at a much faster pace than in the developed world, at least through this decade. The HSBC report expects emerging market consumer spending to grow at a robust pace over the medium term, particularly when it comes to leisure and discretionary services spending.

6 Businesses determined to grow despite headwinds | Insights | HSBC  
7 PWC – Payments 2025 & beyond - Navigating the payments matrix - Charting a course amid evolution and revolution, 2021  
8 HSBC Global Research: Gamechangers, Q2 2023



# Changing business models & demographic influences

On this last trend, financial inclusion has made great strides, particularly post the global pandemic. Consumers in emerging markets are leapfrogging the card age and migrating directly to mobile wallets and account-based payments<sup>9</sup>. According to the World Bank's Global Findex 2021 report<sup>10</sup>, digital financial services such as mobile money, cards, e-wallets, and direct account-to-account payments have driven tremendous growth in account ownership and account usage around the world. During the pandemic, digital payments helped governments transfer money to those who most needed it, supported consumers when the use of cash was not possible, and became a lifeline for many small businesses. There is now a greater opportunity for companies to reach more customers in existing markets, as well as customers in new markets who have historically been excluded from participating in these digital channels.

These demographic shifts will influence global payments. As customers embrace new technology and access to digital payments, there is a greater demand for real time payments, digital wallet platforms and transacting using proxies (i.e. email addresses or mobile number) and QR codes. Financial institutions and fintech companies are working together to provide greater financial access to global markets. At the same time, companies are looking at sustainable global payment solutions that can adapt to their business model in this rapidly changing digital global environment.

9 Payments 2025 and Beyond | PwC

10 Latest Global Findex Data Chart 10 Years of Progress in Financial Inclusion (worldbank.org)





# Future payment trends

The demand for frictionless and cost-effective solutions is a catalyst for banks and fintechs to work together to create opportunities for corporates to improve their cash management efficiency. Additionally, environmental, social and governance (ESG) initiatives will continue to influence the direction of future payment solutions, together with the G20 countries' Roadmap for Enhancing Cross-border Payments<sup>11</sup> to provide low cost, faster, more transparent, and more accessible cross-border payments.

HSBC is keenly focused on four technology drivers – Distributed Ledger Technology (DLT), Generative AI, Web 3 and the metaverse, and embedded payments; and two emerging payment trends - cross border instant payments and Central Bank Digital Currencies (CBDCs).

## Technology driver



### Distributed Ledger Technology

DLT is the technology that allows simultaneous access, validation and record updating across a networked database. Additionally, DLT is the underlying technology infrastructure that supports blockchain structures.

One of the applications of DLT that HSBC is pursuing centres around using this technology to support foreign

exchange (FX) transactions and their associated settlement. The FX Everywhere DLT solution has been in use since 2018 and in its first year, settled more than 150,000 payments – netted down from 3m transactions – worth \$250 billion, reducing the reliance on external services for settlement, adding efficiency, reducing cost, and improving settlement risk management.

Another example, HSBC's DLT Settlement Utility (HDSU) solution was developed to facilitate settlement and payments for blockchains and DLT networks in a regulated and compliant manner. HDSU supports both emerging and traditional payment rails and can be deployed natively onto public non-crypto blockchains and permissioned DLT networks, or interface with these networks via an API (application programme interface). It has been deployed in several proof-of-concept projects for different use cases, such as large value securities settlement, corporate cash management, as well as trigger-based supplier payments<sup>12</sup>.

This past July, the Federal Reserve's New York Innovation Center (NYIC) and ten financial institutions, including HSBC, shared the results of a proof of concept of the Regulated Liability Network (RLN)<sup>13</sup>. The trial successfully tested commercial bank deposit tokens and a wholesale central bank digital currency (wCBDC) on a shared DLT infrastructure. RLNs help to facilitate cross-border payments more efficiently at a lower cost and with greater speed.

11 G20 Roadmap for Enhancing Cross-border Payments: Priority actions for achieving the G20 targets (fsb.org)

12 Distributed Ledger Technology in the Capital Markets, HSBC Bank plc, 11 March 2019

13 New York Fed, Citi, Wells Fargo, HSBC, others complete digital currency trial - Ledger Insights - blockchain for enterprise

# Future payment trends



## Generative AI

HSBC's launch of AI Markets shows how Generative AI has the capability to revolutionise how investors navigate the complexity of financial markets<sup>14</sup>. The proprietary NLP engine allows institutional investors to generate bespoke financial market analytics, gain access to HSBC's real-time and historic cross-asset data sets, and browse the latest market insights.

For the banking sector, regulatory and data privacy requirements are a primary consideration for the broad use of Generative AI. Currently, its use is more focused on an internal tool to provide support in generating reports and content based on internal data, which is closely controlled and regulated<sup>15</sup>.



## Web3 and the metaverse

Web3 is the decentralised internet built on distributed technologies like blockchain and decentralised autonomous organisations (DAO) rather than centralised on servers owned by individuals or corporations. The metaverse leverages Web3 technology to create virtual worlds by operating on a decentralised distributed ledger network<sup>16</sup>.

As various sectors create these virtual worlds, transactions are taking place that require a method to send and receive payments within the virtual reality platform. The financial services sector is looking at ways to create a presence in the metaverse to offer financial services in these virtual environments. As with distributed ledger technology, the concerns over data security and data sharing need to be considered, particularly for regulated sectors, such as banking and financial services.

14 HSBC AI Markets | Products | HSBC

15 HSBC Global Research, Generative AI, Feb 2023

16 The Important Difference Between Web3 And The Metaverse (forbes.com)





# Future payment trends



## Embedded Payments

An embedded payment is a payment that takes place within a non-banking platform, without asking the user to login again or redirecting them to a third-party platform. Embedded payments can benefit both the business that implements them and their customers making payments to them. The payment experience becomes faster and more “frictionless”, and many of the barriers preventing a customer completing a payment are removed.

To help corporates address time consuming and labour-intensive accounts payable (AP) processes, HSBC and Oracle NetSuite last year unveiled a solution that embeds banking services into a cloud ERP system, NetSuite AP Automation<sup>17</sup>.

The launch of automated HSBC payment services with NetSuite helps make payment processing simpler, faster, and more accurate. From within NetSuite, customers can determine precisely when and how to pay suppliers, ensure control over outgoing cash flow, and take advantage of early payment discounts. Further, a company can complement the embedded payment functionality with the benefits of a corporate

card program. For suppliers accepting card payments, the company pays its supplier with a corporate card with the agreed trade terms, whilst extending its actual cash payment by leveraging the card program’s repayment terms.

Another example of how companies are benefitting from tokenisation, DLT and payments being embedded into digital ecosystems is the recent deployment of HSBC’s first blockchain-based digital payments platform to support a real estate development ecosystem in Singapore. A real estate ecosystem involves multiple parties across a fragmented workflow, making coordination and oversight of core activities such as invoice submission, contract management and claims processing challenging. The new HSBC blockchain-based workflow and payment solution allows real estate businesses to digitise workflow tracking processes, which enables the automation of payment. The new solution will improve operational efficiency, governance, and transparency, and ultimately reduce the overall project turnaround time<sup>18</sup>.

17 HSBC launches embedded banking services within Oracle NetSuite - About HSBC | HSBC USA)

18 HSBC pilots first blockchain-based digital payments platform - About HSBC | HSBC Singapore



# Emerging payment trend



## Cross-border Instant Payments

The move to digital business models has created a stronger demand for payments to settle in real time. Just as individuals can send payments instantly through a mobile device, companies are looking for the same experience when making time sensitive treasury payments, payments to vendors, and receiving payments from customers.

The global adoption of real-time payment schemes and payment messaging standards such as ISO 20022 provides a foundation for further collaboration between countries to establish real-time cross border payments.

The collaboration between EBA Clearing, The Clearing House (TCH), and SWIFT to create an Immediate Cross-Border Payments (IXB) service exemplifies the evolution of real-time payments for cross border transactions<sup>19</sup>. Another example includes the work between Singapore and Thailand to link their respective real-time payment schemes, PayNow and PromptPay, to facilitate real-time payments using a mobile phone number to identify the recipient. Although these collaborations are initially focused on peer-to-peer payments, they are setting the groundwork for expanding the payment functionality to apply to corporate payments in the future.

19 10062022\_IXB\_Pilot\_Set\_Revolutionize\_International\_Payments | The Clearing House





# Emerging payment trend



## Central Bank Digital Currencies (CBDCs)

CBDCs are a new form of digital money issued by a country's central bank and represents a digital expression of the country's fiat currency. They aim to harness the benefits of digitalisation whilst maintaining the stability and security of the national currency. Central banks need to ensure the country they serve has access to useful public money. As digital payments replace cash in many countries, central banks must look at new ways to facilitate these digital transactions. CBDCs help meet this requirement.

Since early 2020, the G20 has emphasised the importance of improving cross-border payments, and there is a need for governments to work together to make them faster, less costly, more transparent, and more inclusive<sup>20</sup>. The use of CBDCs is a potential response to achieving these objectives.

Many countries have active CBDC pilot projects at various stages. But the development of a uniform model that can cater to every jurisdiction is more challenging and has yet to be achieved<sup>21</sup>. Both the G20 mandate on cross border payments and the global growth trend of digital payments are a catalyst for governments to work together on their CBDC initiatives.

An example of this collaboration is Project mBridge - a collaboration between the Bank for International Settlements' (BIS) Innovation Hub Hong Kong Centre,

the Hong Kong Monetary Authority, the Bank of Thailand, the Digital Currency Institute of the People's Bank of China, and the Central Bank of the United Arab Emirates. The mBridge project team developed a new blockchain – the mBridge Ledger – custom-built by central banks for central banks to serve as a specialised and flexible platform for implementation of multi-currency cross-border payments in CBDCs.

HSBC was among 20 commercial banks to pilot the mBridge platform, which advances multi-CBDC experimentation by settling real value directly on the platform and on behalf of corporate customers. The G20 has a stated priority of enhancing cross-border payments, and the success of the pilot furthers this ambition. It allows cross-border payments to be immediate, low cost, universally accessible and settled in a secure settlement medium. These are all attributes that will bring corporates greater efficiency in executing cross-border payments as this type of blockchain settlement moves from pilot to full production<sup>22</sup>.

20 G20 Roadmap for Enhancing Cross-border Payments: Priority actions for achieving the G20 targets (fsb.org)

21 Central bank digital currencies | Insights | HSBC

22 Project mBridge: Connecting economies through CBDC (bis.org)



# Opportunity in agility

The convergence of expanding digital technology, changing business models and an evolving payments infrastructure is creating great opportunities for corporate treasuries. Treasury technology that supports business growth is critical in building for the future and leveraging future business opportunities.

At the same time, not all markets are the same, and the emphasis on adopting agile technology platforms,

which can adapt to a variety of markets, is critical for companies that are expanding globally to reach new customers. The emergence of new global payment trends and adoption of real time payment infrastructure will provide further support to corporates as their business expands to new markets. HSBC provides our clients with a deep understanding of these nuances and can greatly assist corporate treasuries navigate the evolving changes in the global payment ecosystem.

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