

Top Payment Trends to Watch in 2022

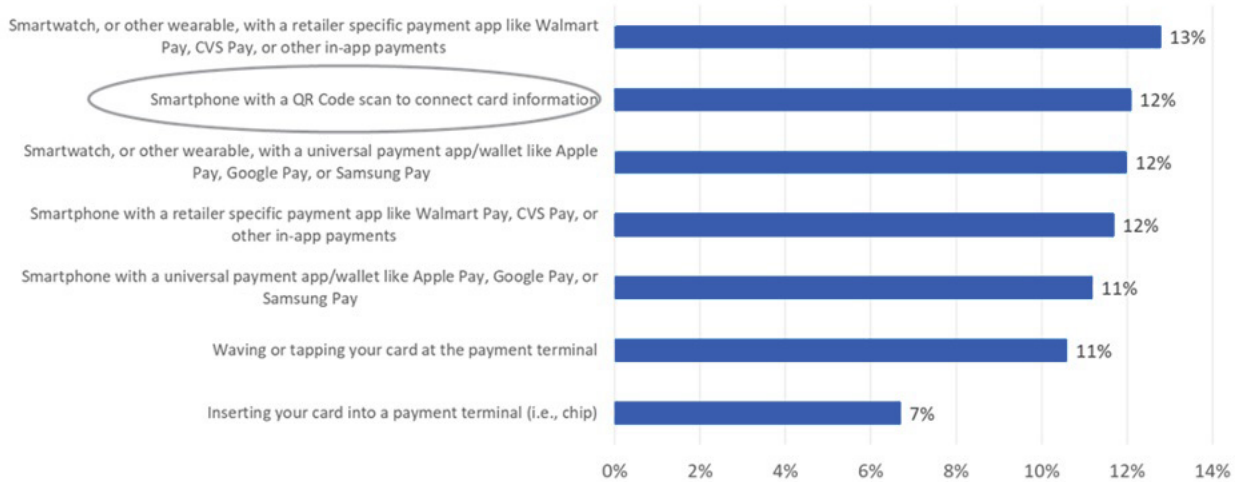


COVID-19 has dramatically affected digital transformation and the payments industry. So what can credit unions expect in 2022? In a recent [webinar](#) hosted by Callahan & Associates, Sarah Grotta, Director, Debit and Alternative Products Advisory Service at Mercator Advisory Group, and Al Griffin, Principal Solutions Consultant/Product Manager at Alacriti, discussed what's to come.

Market Conditions and Recent Trends

Mercator developed extensive surveys regarding consumers' payment habits and how they have changed since the beginning of the pandemic. The chart below shows the types of payments consumers report that they're using a lot more: wearables, smartwatches, mobile apps like Apple Pay, Google Pay, and Samsung Pay and retailer apps like Walmart Pay and CVS Pay. There is also a great deal more usage of cards with contactless capabilities.

Technology use change due to Covid-19
(respondents who have used the technology and said they use it much more)



Source: Mercator Advisory Group

Grotta thought that the increased use of smartphones and QR codes was particularly interesting. “Not only have we seen an increased use of QR codes to facilitate payments, we believe that there’ll be an increased number of QR code implementations for payments. So more merchant locations that are facilitating payments through a QR code and also more use cases being launched here over the next couple of years. For example, you may have seen the use of a QR code to facilitate a bill payment at a retailer. So again, keep your eye on what’s going to be happening with QR codes.” Griffin agreed, sharing that Alacriti’s [EBPP](#) capability to generate a user-specific QR code that can be emailed or put on a statement to quickly make loan payments has been “really percolating back up.”

E-commerce sales have been growing since 2019. As seen in the chart below, Mercator forecasts even more rapid growth through 2022. Grotta shared, “An interesting change that we saw in the past several months as it relates to e-commerce is the use of debit cards in this particular channel. If you’ve been watching the debit card market, you’ve seen really strong growth in the past couple of years and nearly all of that growth is coming from e-commerce consumers, who used to be concerned about their debit card due to increased levels of fraud in online in-mobile scenarios. And not to say that consumers aren’t still concerned about that, but the implications of the pandemic are such that they’re much more comfortable utilizing their debit card in a remote channel.”

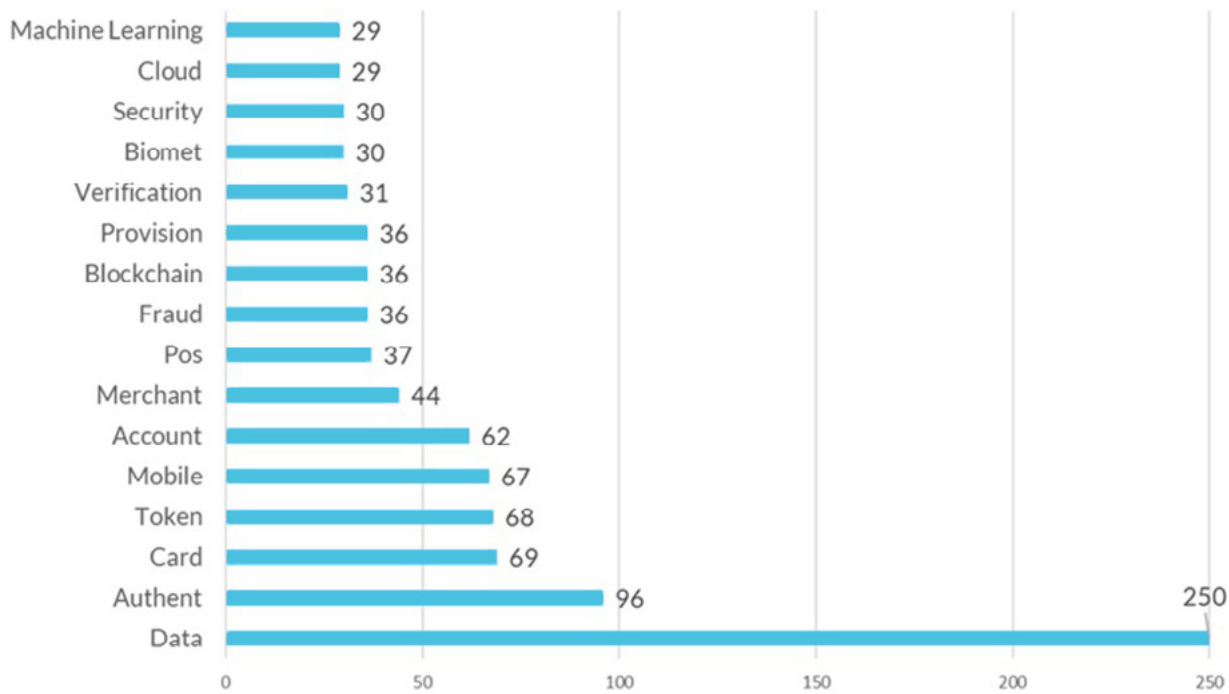


Source: Mercator Advisory Group

The use of order ahead and pick up curbside or pickup in stores really boomed during the pandemic. Although stores and restaurants have almost all opened back up, Mercator surveys indicate that consumers (of all age groups) will continue to use these apps as much as they did during the height of the pandemic when shopping restrictions were prevalent. For those merchants that haven't jumped onto this bandwagon, it's anticipated that order ahead will be a focus for them in 2022.

Unfortunately, the increase in remote purchases and a greater reliance on online and mobile services has led to higher rates in several fraud types. Fraud was already on the rise in 2019 and then ramped up even faster as the pandemic took hold. Consumers reported higher rates of bank, credit, and loan or lease fraud. The good news is that the industry is adjusting to the new attack types, and the rates are starting to stabilize.

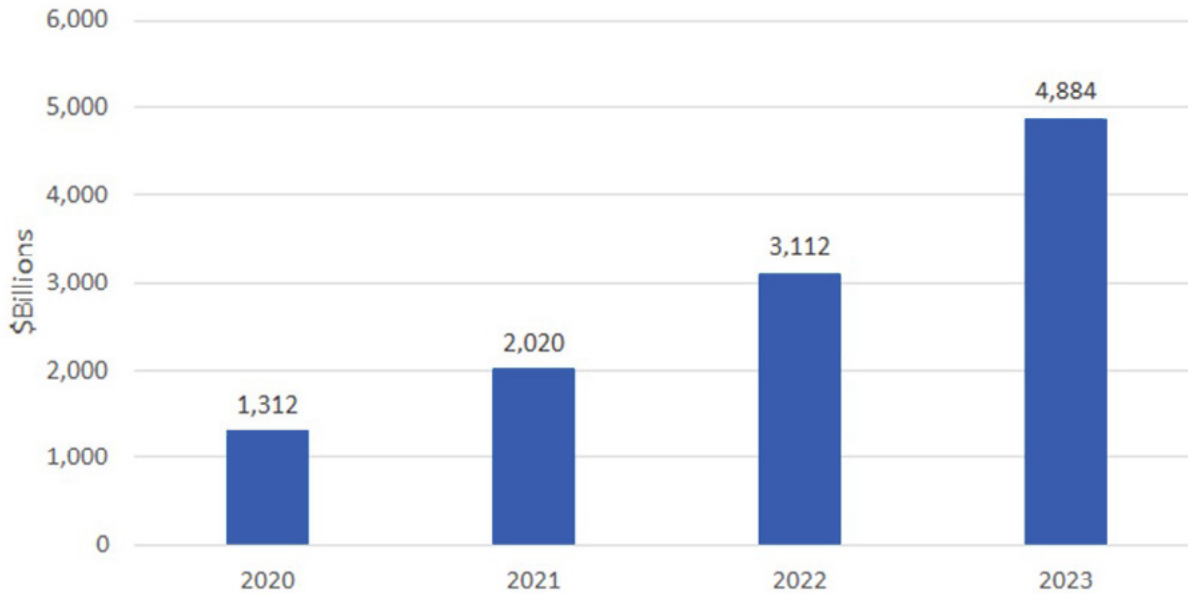
The financial industry is investing in new payment technologies in a variety of ways due in part to changing fraud threats and simply the shift in the way that people want to pay for goods and services. More banks and credit unions are investing in payment modernization. Mercator tallied up the number of payments related patents that have been filed by processors, banks, credit unions, fintechs, and some others (results in the chart below). There are a tremendous number of patents being filed around solutions such as authentication payment, tokenization, fraud, controls, verification, and provisioning, as well as biometrics and machine learning.



Source: Mercator Advisory Group

There is also an increasing number of credit unions and banks moving on from the planning phases for faster and real-time payments into pilots and implementations. More financial institutions are offering Same Day ACH origination and productizing this option as sort of an entry-level movement toward adopting real-time payments. More account-to-account and business-to-consumer disbursements are occurring through debit push payments. There are many participants in the pilots with the Federal Reserve for their [FedNowSM Service](#) that are helping to shape the network and they will be positioned to be early providers of the service. There are also more products launched around The Clearinghouse [RTP[®] network](#). For instance, U.S. Bank [announced](#) they had a solution that uses [RfP](#), giving the opportunity for consumers to pay bills instantly and for billers to be able to quickly reconcile that bill payment and gain access to the deposit immediately. Overall, Mercator predicts a fast pace of growth for faster and real-time payments.

Estimated/Forecasted Growth of U.S. Faster and Real – Time Payments



Source: Mercator Advisory Group

Griffin elaborated on RfP as an interesting solution, “It’s the opportunity for a biller to message a payer and say, “Hey your bill is due,” and then, the payer has the opportunity to respond by paying that bill in full or setting up the specific amount that they want to pay. When they hit the go button, that payment is transferred immediately. So there are a lot of opportunities for the payers as well as the billers. And so I think the industry believes that this particular solution is really going to ramp up acceptance of real-time payments overall.”

Real-time payments are still in their formative years in the U.S. However, many countries have actually been operational for at least ten years, and these real-time networks are starting to connect and process transactions across borders. The U.S. may be years away from that. But in 2022, more work can be expected to determine what’s needed to connect U.S. real-time payment platforms with other countries’ platforms focusing specifically on the regions where the U.S. has a lot of trade.

Griffin shared that digital wallets and digital banks are continuing to grow, “More consumers are moving to digital wallets and are driven there today by technology ease-of-use and cost—a key component. And this has really escalated during the pandemic. We can see the digital wallet usage jumped from [38% to 55%](#) of smartphone owners in 2020. An example of cost driving the adoption of digital wallets are how sports teams are now going from the paper tickets that we are all used to, to the digital ticket that now you need to download and store into your digital wallet so that you’d have access to get into the games, as well as their other content, such as programs, rosters, etc., things you used to see and put your hands on.”

Another key area is the households and consumers that have difficulty getting a traditional bank account for whatever reason (unbanked). And there are approximately [7.1 million](#) people that fit in this particular category. This number is the lowest it's been since 2009. And perhaps that's because for some, the digital wallet is actually their bank, and that leads them into more mainstream financial services. Today, it's possible to even get a paycheck deposited directly into a digital wallet. In addition, digital wallets also provide additional security measures that really aren't available when paying with a physical card or cash. Since digital wallets are inherently contactless, that was a huge plus during the pandemic.

Digital wallets and digital banks do have some disadvantages when compared to traditional financial institutions. While they do have a lower cost structure since everything is cloud-based, their challenge is how they continue to drive revenue to be profitable. They may need to start charging fees for some of the services that they're offering for free today, which is certainly going to decrease their growth rate. Already, some of them have pivoted to credit cards or solutions where they can charge interest rates and other fees, but the BNPL craze has put a damper on that particular strategy. Digital banks also don't have a fabulous track record when it comes to customer service. If something goes wrong, it's difficult to get them on the phone.

The increased demand for digital banking has given rise to numerous technological advancements that we are seeing today within financial institutions, along with artificial intelligence at the core of these transformations. By 2025 it is estimated that the adoption rate will be [80.4%](#). And there's going to be [39.1 million](#) digital banks (also known as Neobanks) account holders by 2025. These digital banks are driven by the demands of tech-savvy consumers. The same study found that [89%](#) of the respondents said they use mobile banking channels, and 70% said mobile banking has become their primary way to access their accounts. This is a trend that's not just limited to millennials and generation Z populations. Fortunately, software-as-a-service, [open APIs](#), and fintechs make it possible for banks and credit unions to leverage the new services available and also tie into digital wallets.

2022 Outlook

Griffin began his comments on technology to focus on in 2022 with APIs. "API driven architecture where we have RESTful APIs, which utilize less bandwidth, are really dominating now, serving as a glue to pull these services together. And then, the open APIs that are being designed for existing applications are now being modified to provide external API connectivity to interact with newer payment infrastructure technologies so that they can get things out to their consumers faster. Basically, API technology makes it easier for these financial institutions to digitize services and allows FinTechs and FIs to work together to provide new services by seamlessly integrating to a FinTech that may offer that service."

APIs (Application Programming Interfaces) are a way for software systems to 'talk' to one another. The fact that RESTful APIs use less bandwidth is ideal for efficient internet usage and hence cloud services. Open APIs are simple and easy to understand—meaning you don't have to be a payments expert to leverage a payments API. Credit

unions don't have to change their infrastructure setup. They can just go to the cloud, find a partner that's in the cloud, utilize their services, and get things in production in a much faster timeline.

Microservices or microservice-based architecture is an approach to application development in which a large application is built as a suite of modular components or services. This gives developers the flexibility to make changes without needing to do larger re-testing. Another benefit is consistency; enhancements can be made without downtime. And since different teams can work on different components of the solution at the same time, there are efficiency gains.

Having an API strategy is key to how credit unions can acquire new technology and open data to other organizations. About [53%](#) of financial institutions have already deployed APIs, and 24% planned to invest and or implement them in 2021. So there's growth ahead for 2022 and beyond. The main question is how open does a credit union want to be with its API strategy. Do they want to expose their API for their internal developers, enable permission access to select the partners, or go fully open? Alacriti offers an API-first microservice-based architecture with the [Orbipay Platform](#), which allows credit unions to leverage real-time payments, loan payments, and digital disbursements, all through a flexible integration framework that ties directly to your core banking, and risk management areas as well.

Another technology that's coming along is the [ISO20022](#) standards, which are globally accepted messaging standards used by payment systems in over 70 countries. It's really the key in driving payment modernization, innovation, and automation of global messaging and is also the backbone of RTP payments from both The Clearing House and FedNow. ISO20022 brings richer data for payments messages, meaning more transparency and remittance information and hence a better member experience. Analytics are improved, resulting in less manual intervention, more accurate compliance, and improved fraud prevention. ISO20022 also aids in a faster integration of systems, even with legacy platforms.

As we continue in the "I want it now" world, the ISO20022 framework is going to help credit unions and vendors like Alacriti. The [Alacriti Cosmos for RTP®](#) solution employs ISO20022 standards and microservices architecture in an AWS cloud. This allows easily streamlined connectivity to the TCH network for RTP origination, acceptance of RTP payments, technology for payments, disbursements and loan payments.

Preparing for 2022 and Beyond

To prepare for next year, Alacriti recommends being collaborative and flexible. Find a partner that listens to your needs and is flexible in providing some or all of the solutions that you're looking for. Everything doesn't have to be a rip and replace. Cloud-based implementation really helps to streamline things and reduce costs. Understand your members' needs and what they want. The easier it is for them to implement, the easier the relationship becomes. Because of that, Alacriti's [Orbipay Unified Money Movement](#) platform is a cloud-based platform that enables credit unions to quickly and seamlessly deliver modern and intuitive digital payments and money movement services.

With UMM, credit unions can provide a unified user experience through all the different channels that currently exist within the credit union. Alacriti provides the framework that allows everything to work together. No matter what channel you're coming in from or what payment method you want to use, whether it's bill pay, account to account, P2P, a loan payment, funding new accounts, digital payouts, RTP, or ACH payments—they can all come through the Alacriti channel. The solution integrates to not only your back-office processing systems but also straight to processing rails. Whether that be with any ACH network, the card rails, the Visa Direct rails, or something that needs to go directly to your core or through the RTP processing, those are all consolidated through the Orbipay platform and can be reported on through the platform as well. It's important to go beyond enhancing the existing member experience and think about how to make channels and payment interactions frictionless. Adopt other platforms and deploy things in an agile way as technology and member needs grow.

For those credit unions that have a lot of work to do to modernize, strategy is the first priority. Identify the needs of members. For example, if there is a lot of talk about real-time payments, then the first step can be the ability to receive a real-time payment and then grow into sending real-time payments. Each credit union is different in what they offer and where they are along their digital transformation journey.

To learn more about payment trends to expect in 2022, watch the full webinar, **Top Payment Trends to Watch in 2022**, featuring Mercator and Alacriti.



WEBINAR PLAYBACK

Top Payment Trends to Watch in 2022

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Today's legacy and siloed banking technology infrastructure limit financial institutions' ability to rapidly innovate. It's time to look at money movement in a new way. Alacriti's Orbipay Unified Money Movement Services does just that. Whether it's real-time payments, digital disbursements, or bill pay, our cloud-based platform enables banks and credit unions to quickly and seamlessly deliver modern digital payments and money movement experiences. To speak to an Alacriti payments expert, please call us at (908) 791-2916 or email info@alacriti.com

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