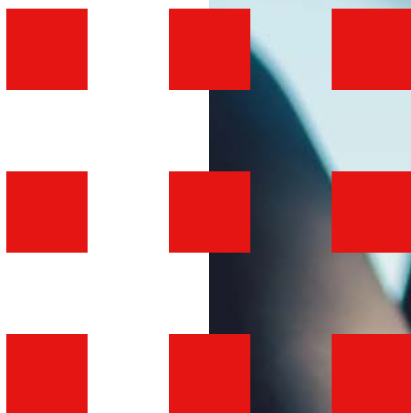


Payments trends

The Future of Payments Today



2023



Getnet^{III}

A Pagon|xt COMPANY



The Future of Payments Today

Introduction

It's true; innovation never sleeps. The past three years have delivered unprecedented challenges to merchants, many of which will continue to linger long into 2023 and beyond. Amid ongoing uncertainty, a wave of innovation across fintech and payments provided a bright spot for merchants, offering them increased resilience and new revenue streams.

A continuation of our whitepaper The Future of Payments, Today this paper will look at the key trends that continue to shape the Latin American and European payments landscapes in 2023.

We possess no crystal ball, but one thing we can say with certainty is that the digital payments revolution will continue at pace.



Trend 01

Increasing innovation is driving the frictionless and seamless payments economy: the consumer at the centre

*"It is undeniable that the payments landscape has seen an astronomical increase in adoption of the technologies driving frictionless and seamless transactions," said **Javier San Felix, CEO, PagoNxt**. "The accelerated pace in innovation has been driven, in part, by the pandemic and eCommerce boom that we have witnessed the world over. Yet, we are only just at the tip of the iceberg." "This rings as true today as it did 12 months ago. Creating frictionless and seamless ways to pay, with the consumer at the centre, will help businesses to navigate ongoing economic volatility in markets such as Latin America. We must continue to develop good regulatory practices to reduce market barriers and promote innovation, as well as explore digital trade agreements to secure safe cross-border digital payments."*



Total transaction value across all forms of digital payments surpassed

\$8.49
trillion by the end of last year

By 2025, it's estimated that the number of smartphones in Latin America will surpass


590
million

The abundance of new payment methods - and their unrivalled convenience, efficiency, and speed – continued to encourage consumers to try new ways to pay for goods online.

Total transaction value across all forms of digital payments surpassed **\$8.49 trillion** by the end of last year, and shows few signs of slowing, with analysts expecting the value to rise to \$15.17 trillion by 2027. This is a clear indication of the importance of offering choices to consumers to meet their individual preferences.

This isn't just limited to developed markets, however. Digital payments have become a foundational part of economic activity, financial inclusion and business growth across Latin America. By 2025, it's estimated that the number of smartphones in the region will surpass **590 million**. Couple this with ever-improving mobile coverage, user-friendly functionality and a steep rise in eCommerce, and it's clear that digital innovation is driving consumers towards frictionless payments. For this reason, the **transaction value of digital commerce** in the region is now expected to increase by approximately 73% by 2025.

With so many local payment preferences, merchants who sell across borders must look at how their customers will want to pay in 2023 and make sure they're set up to meet those needs.



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Trend 02

Digital is key to
merchants' international
and domestic growth

In January 2022, we concluded that merchants must continue to establish their online presence as the most important shop window to remain competitive.

eCommerce continued to rise in popularity over 2022. By the end of this year, eCommerce sales in Latin America surpassed **\$104 billion**, marking a 22.4% increase from \$85 billion in 2021. However, with **26%** of the population currently unable to get online, there is still a large untapped eCommerce market likely to develop over coming years.

The picture is similar in Europe. Across the continent, the European eCommerce market is expected to register a compound growth rate of **14%** to 2027.

Despite ongoing economic uncertainty, eCommerce is expected to account for about **22%** of the total global retail sales in 2023, reaching \$5.4 trillion in 2026. It's therefore imperative that merchants continue to prioritise investing in their eCommerce platforms to capture not only opportunities within borders but across international markets too.

"To succeed in 2023, merchants must partner with a payments provider to ensure that they are providing frictionless and personalised experiences to their customers, regardless of where they are in the world. Getnet partners with international merchants to provide global and local market knowledge and services across multi-channel platforms."

Kush Saxena,
CEO **PagoNxt Merchant Solutions**



eCommerce sales in Latin
America surpassed

\$104
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The European
eCommerce market is
expected to register a
compound growth rate of

14%
to 2027

The global eCommerce market
is expected to increase from

\$3.3 trillion today
to **\$5.4** trillion in 2026



The Future of Payments Today

Trend 03

A renewed focus on data-led payments following a surge of new online users

If harnessed correctly, data can be a true competitive advantage for merchants. Brands now have more data at their disposal than ever, giving them the opportunity and ability to personalise every step of the customer journey. Incorporating customer data touchpoints remains key to differentiation in a crowded online marketplace.

Improved data management and analytics empowers merchants to not only understand conversion rates, local preferences and track chargeback rates, but also get a granular insight into payment trends. For merchants operating across borders – whether internationally or intercontinentally – analytics can help merchants to maximise conversions, decrease costs and better support international customers.

The continued adoption of ISO20022 will further strengthen data led payments over the coming months and years. The standard, which creates a common language for payments data across the globe, promises to offer richer data, enabling improved fraud detection, reduced outages and enriched analytics.





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Trend 04

Ever improving fraud
protection

With eCommerce continuing to rise in popularity, fraudsters have become bolder and more sophisticated in an attempt to syphon spending.

eCommerce fraud could rise to **\$48bn** globally in 2023, from just over \$41bn in 2022, according to a new study by Juniper Research. This is unlikely to be restricted to just one market; 42% of all fraud is expected to occur in North America, compared to 3% in Africa and the Middle East.

New scams are emerging, with hackers recently turning their attention to returns fraud. This is the abuse of refund policies for financial gain and costs eCommerce businesses more than **\$25 billion** every year. Already, refund fraud services have increased by more than 150% between 2019 and 2021.

The cost of living is likely to exacerbate problems further. Across the globe, criminals are targeting vulnerable members of the public with promises of energy bill rebates, cost of living payments and fuel vouchers.

To adjust, investment in fraud protection technologies is clearly needed. By the end of next year, capital pouring into fraud detection companies is expected to surpass **\$9.6 billion**.

However, in addition to the technologies available, merchants should also embrace fraud prevention-led approaches to their interactions with customers. By partnering with a trusted payments provider, merchants can mitigate the risk of fraud, and in turn, reduce customer friction and increase operational efficiency.

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Trend 05

An increased
movement towards
regulating fintechs
old and new



For many years, regulators have worked tirelessly to keep pace with innovation, but as emerging technologies enable innovation to scale faster than ever before, they are struggling to keep up.

As a result, regulators take a different approach around the world, with some letting innovation lead. Many countries were quick to implement an inviting and hospitable regulatory framework. Mexico's Ley Fintech and Brazil's phase 1 Open Banking have both attracted investment to the region, and Peru, Argentina and Chile are soon expected to follow with their own fintech regulations.

In Europe, regulations are being led by independent organisations, but progress is once again spurred on by fintechs feeling the pressure from Big Tech, which are keen to capitalise on the payment's opportunity. This has been a key driving force behind the implementation of PSD2 and Strong Customer Authentication (SCA). In May 2023, the implementation of the EU's Digital Market Act will grant innovators and technology start-ups with new opportunities to compete and innovate online without having to comply with unfair terms and conditions limiting their development. This is likely to drive further growth in fintech across the region.

Amid economic volatility, regulators must adopt innovative mindsets, continuing to find ways to encourage and inspire fintechs to build world-beating solutions that can empower consumers throughout challenging periods.



The Future
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Trend 06

It's clear –
the future of banking
and finance is open



The global financial service
infrastructure reached over

1,500

open banking platforms

5,000

API products, and 2,300 API-
enabled fintech apps

Around the world, open banking and open finance ecosystems are emerging as the world's digital financial infrastructure. The global financial service infrastructure reached over 1,500 open banking platforms, creating more than 5,000 API products, and 2,300 API-enabled fintech apps. Regulations are emerging, standards helping to accelerate fintech participation, and consumers are demanding digital-first solutions.

Banks are responding, and increasingly starting to diversify their business models to capture new revenue opportunities enabled by open banking. Most APIs are still focussed on payments and account information, where banks can still own the relationship with either customers or partners.

Regions such as Latin America can only succeed by cooperating across borders, unlocking a global Open Finance powerhouse. It's clear that institutions have an appetite for a concerted effort in the region; Open Finance is a reality in Brazil after being propelled by the Central Bank, while Chile's impending Fintech Law contemplates the need for Open Finance and pushes for regulation to be established in less than a year.

Throughout 2023 Open Banking and Open Finance will continue to drive financial inclusion around the world, particularly in regions such as Latin America where vast proportions of unbanked individuals stand to benefit.



The Future
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Trend 07

Rise in seamless
cross-border
payments around
the world



Similar to eCommerce, cross border payments have boomed in popularity over recent years. To illustrate, the value of international payments is expected to reach \$200 trillion by 2027.

This remarkable growth has been catalysed by the pandemic, as well as the globalisation of eCommerce. However, fintechs, digital banks, PSPs and Big Tech must continue to innovate and help to drive further growth in seamless cross-border transactions.

Regulation will have a key role to play. In April 2022, the **Cross Border Payment Regulation 2** came into force in Europe, which increased the number of payments by ensuring that costs remain fair for consumers. Elsewhere, SWIFT, EBA Clearing and The Clearing House recently joined forces, and with the support of 25 financial institutions from both sides of the Atlantic, will the feasibility of immediate cross-border payments from North America to Europe.



"2023 will continue to see greater innovations in cross border payments, whereby businesses will harness emerging technology to ensure that their global offering is as desirable as that of local transactions. By partnering with a trusted payments provider, merchants can tap into a network of frictionless and interoperable cross border payments, powering a range of new digital opportunities to help grow revenue during challenging times."

Ignacio Narvarte,
Deputy CEO **PagoNxt Merchant Solutions**



The Future
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Trend 08

The influence of sustainable policies and products driving the ESG agenda

Around the world, businesses large and small are continuing to adopt sustainable policies and practices at pace.

With consumers increasingly aware and anxious about the effects of climate change, many will look to eCommerce platforms – particularly those that market second-hand goods – to eliminate waste and reduce their carbon footprints. Pricing and packaging must become key considerations to capture an eco-minded market; **66%** of consumers in Latin America want eCommerce platforms to offer biodegradable packaging, for instance, while **54%** of Europeans look for recyclable goods.



But merchants must not overlook the importance of the payments process in meeting ESG credentials and standards. Alternative payment methods, such as virtual cards and digital wallets, can help merchants to improve their ESG credentials. Equally, alternative payment methods can also unlock vast new data sources, which in turn can help to build environmentally conscious societies.

For consumers, enriched financial data collected over time can help to reveal potential areas to reduce carbon footprints and environmental impact. Equally, merchants can harness the data to deliver added value by helping their eco-minded customer base to make personalised, eco-conscious decisions.

In short, the power of payments to drive ESG agendas should not be overlooked in 2023.



"For the sixth year in a row, Getnet Brazil has neutralised its carbon footprint, meeting the Brazilian GHG Protocol Programme. We also continued to apply the concepts of a circular economy to improve our ESG-focused operations, such as reducing the use of pollutants in our card machines. We also ran a pilot for delivering all our machines using only electric motorbikes."

"These changes may seem small but will build up over time; we've calculated that with this action Getnet will be able to reduce over 30 tons of greenhouse gas emissions per year. This is just the beginning."

Cassio Schmitt
CEO **Getnet Brasil**



The Future
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Trend 09

Ever increasing
payment method
variety

Digital wallets are
expected to account
for up to

30%

of eCommerce
transactions in Europe
by 2024



Over the course of 2022 consumer preferences continued to evolve at pace.

Latin America continues to cement itself as a remarkable eCommerce market, thanks in part to growing digital services. However, the payments landscape remains fragmented, with multiple countries, cultures and languages leading to nuances in regulations and currencies. For this reason, payments preferences vary, with instant payment methods (such as Pix in Brazil), Buy-Now-Pay-Later and open banking all growing in popularity and usage. To illustrate, as of March 2022, 51 million Brazilians were registered on Pix – an increase of 72% from the previous year.

In Europe, cards have long been the default payment method. However, alternative payment methods such as digital wallets, account-to-account (A2A) payments and BNPL are continuing to challenge cards as they become the preferred payment methods for consumers. To illustrate, digital wallets are expected to account for up to 30% of eCommerce transactions in Europe by 2024. Cryptocurrency payments, stablecoins and Central Bank Digital Currencies (CBDCs) are all rising in popularity, albeit in very small figures.



"As new technologies emerge; merchants must be prepared to adapt and adopt to meet the needs of each individual customer. With such a fast changing and fragmented landscape, merchants can easily feel overwhelmed and end up offering an unrefined and unappealing payments mix to their customers. For this reason, it's essential that merchants look to partner with a trust payments provider and are able to keep pace with technology."

Sreelekha Sankar
CTO **PagoNxt Merchant Solutions**



The Future
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Trend 10

The race to
create a super
app heats up

It's reported that the average adult has more than 80 apps on their smartphone but uses just **one tenth** of these on a daily basis. What's more, 88% of mobile time is spent on apps.

It's clear that there remains an opportunity for merchants to create a 'one stop shop', where users can access an aggregated set of services. In Asia, 'super-apps' such as WeChat, Grab and Rappi all allow users to do everything from order food to socialise with friends and family.

Over recent years Western markets have shown glimmers that super apps will proliferate all around the world, which continued in 2022. Several European apps – including Klarna, Revolut, Bolt and Lydia – emerged as frontrunners, offering users an eclectic range of services from banking to transport to food delivery. Despite this, the advancement of a super app is hampered by a lack of consumer trust, homogeneity and regulatory hurdles.

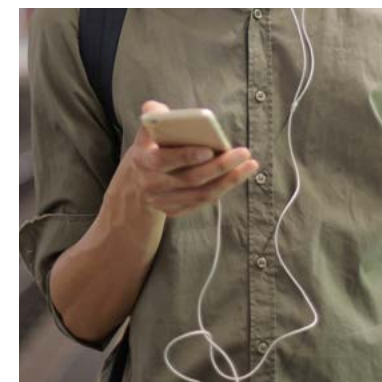
It's reported that across the UK, Germany, the US and Australia combined, **72%** of consumers are interested in super apps, with 90% motivated by the convenience of it. For this reason, it's likely that competition will grow in 2023, helping mobile-first populations discover new ways to pay for goods and services.

With both Open Banking growing in maturity across Europe, the regulatory landscape is increasingly favourable for a super app to emerge. Western players will need to establish a clear sense of customer-centricity to bridge a lack of consumer trust. The road remains long, but the pathway is becoming increasingly clear.

UK, Germany, the US and
Australia combined,

72%

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interested in super apps



The defining trends of 2023

In addition to the ten trends which will continue to shape eCommerce and payments for years to come, we've added four new trends which will play a defining role throughout 2023:

2023



The defining trends of 2023

01

Buy Now Pay Later will continue its upwards trajectory

Buy Now Pay Later (BNPL) services are growing at a breathtaking pace, with the global market expected to reach **\$576 billion** by 2026. Across the globe, BNPL payments already account for **9%** of all eCommerce transactions, and this figure is estimated to reach 24% over the next four years.

In Latin America, however, BNPL services are growing at a much smaller rate. In 2021 BNPL accounted for 1% of all eCommerce spend – a figure which is set to rise to 3% by 2025. According to **AMI**, BNPL could capture up to 20% of the region's eCommerce, however, highlighting its true potential. Countries such as Brazil, which have created a favourable regulatory framework led by central banks, have unshackled a new wave of competition from fintechs, facilitating huge growth in the number of players in the BNPL market.

In Europe, there is currently no regulation in place around offering and using BNPL financing, but this is due to change. Both the European Commission and UK Financial Conduct Authority have already submitted proposals for new legislation covering the provision of short-term credit, which could temporarily slow down the strong growth of services Europe by increasing the cost associated.

In 2023 the wider macro-economic environment is likely to be a key driver in the upwards trajectory of BNPL, as witnessed during the pandemic. Amid COVID-19 we witnessed an influx of apps enabling consumers to spread payments in monthly instalments; the merchants that adopted BNPL saw a **20%** increase in conversion rates. This is the clearest evidence yet that merchants must integrate BNPL into the payments mix to navigate oncoming economic difficulties.

BNPL
The global market
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\$576
million by 2026

BNPL payments
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transactions



The defining trends of 2023

02

Real time payments will continue to shake up the payments landscape

Over the past decade, real time payment networks have proliferated worldwide. Operating on separate rail systems from traditional payments, real time payments will bring a number of significant benefits for merchants, helping to make their businesses cheaper and improve cashflow through times of economic turmoil.

While real time payment systems are still in their infancy, uptake of the technology is likely to be high in markets where there is a lack of developed financial systems, such as Latin America.

In Brazil, real time payments transaction numbers are expected to rise to **82.4 billion** annually by 2026, passing on net savings for consumers and businesses of more than \$37 billion in the same timeframe. By 2026 the country has the largest forecasted GDP facilitated by real-time payments in percentage terms (2.08%).

Ultimately, real time payments will eliminate both interchange and merchant service fees, giving them a larger portion of revenue for each purchase a customer makes. In order to capitalise in 2023 and beyond, merchants will need to ensure that they have the correct tech stack and trusted payments partner. For instance, merchants may need to invest in new payments terminals, or allow customers to make purchases via QR codes.

What we can say with confidence is that throughout 2023, a real time payments revolution will continue to shape future markets worldwide.

Real time payments transaction numbers are expected to rise in Brazil to

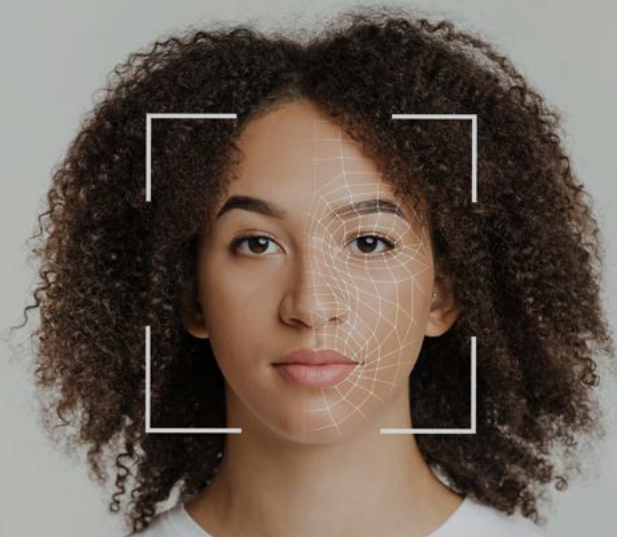
82.4

billion in 2026

Brazil real-time payments forecasted to generate

2.08%

of GDP by 2026



The defining
trends of 2023

03

Biometrics must be embraced

Amid rising rates of payments fraud, biometrics – or the use of biological traits to identify an individual – are likely to continue to rise in popularity.

Already, biometric payments are growing instore, and in 2023 we expect biometric authentication to largely become commonplace in all financial transactions. Since its introduction in Europe earlier this year, the role of biometrics has evolved to support Strong Customer Authentication (SCA) compliant payments and increasingly Know Your Customer (KYC) and ID verification and is likely to play an ever more important role in eCommerce, too.

To illustrate, it's reported that **86%** of Americans and 7 in 10 Europeans are interested in the further rollout of biometric payments in coming years to boost security at the checkout.

Merchants are continuously looking to implement effective measures for mitigating fraud and confirming that legitimate cardholders are behind the purchases from their stores. Biometrics could prove the silver bullet.

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The defining trends of 2023

04

Social commerce marches onwards

It's estimated that **4.5 billion** people are on social media, equivalent to 57% of the world's total population.

While news publications, politicians and marketers are just some of those who have utilised this captive audience, merchants are at the beginning of a social shopping revolution. While global social commerce sales reached **\$492 billion** in 2021, revenue is expected to nearly triple by reaching \$1.2 trillion by 2025, according to Accenture.

Mobile-first Latin American markets – where the journey from bricks and mortar retail to eCommerce accelerated quickly – have adopted social commerce much quicker than those around the world. To illustrate, in 2022, the social commerce market in Latin America had an estimated size of about **\$6.2 billion**. By 2028, Gross Merchandise Value (GMV) is forecast to exceed 27 billion dollars in the latter year.

Over the coming months, major social networks such as Facebook, Instagram and WhatsApp will all continue to integrate new shopping and check-out functions to encourage consumers to make direct purchases. Merchants are continuing to work with these platforms to ensure that they capture sales from the countless consumers that socialise online daily.

Global social commerce sales reached

\$492

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Conclusion

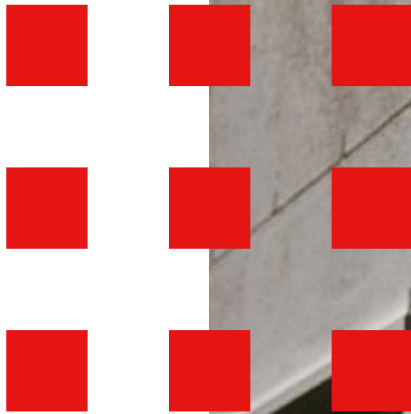
Payments are changing at an unprecedented rate. Digitalisation, decarbonisation and ongoing supply chain issues are combining to alter the payments preferences of consumers, and the merchants that continue to keep pace will have a competitive advantage in what's set to be another tumultuous year.

There's little we can say with certainty in a fast-changing world, but if there's anything we can learn from the past, it's that merchants must select a payments partner capable of leveraging these new ways to pay and reach customers. Doing so is the only way to thrive in today's constantly changing landscape.

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Getnet

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