

Expectations for payments during 2022

In general, the last two years are showing that digitalization and innovation are not a differentiator anymore for payment providers in the market. On the contrary, maintaining a sustainable growth of market share, where payment service providers are sprouting like mushrooms after the rain, is paramount.



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The year 2020, following the last year's trend, produced high expectations, regarding innovation in payments, especially being affected from the pandemic, as the later still continues to be amongst us. Surely expectations have reached a satisfactory level, not only in terms of innovative technological solutions, but also in terms of regulatory framework supporting cashless payments. As per innovative payment solution, we can mention solutions in the market, which are focusing more and more not only in service digitalization (being the keyword during the last two years), but innovative solutions, which aim higher interaction with the end user, associated with increased sense of security from the latter (such as 3DS payments through two-factor authentication, e-pin solution, where the clients asks for a pin through a SMS, digital

onboarding, etc.)

Both these patterns are interconnected with a clear aim from the payment providers, which is retaining loyal customers, and continuous customer base growth, in a time when innovative solutions are often seen in the market. In terms of regulatory framework, a number of positive changes have been observed during this year that support the competitiveness of payment service providers, giving priority to innovative "cashless" products in the market (the new Law: "On Payment Services", draft regulations for the licensing of payment/e-money institutions, or payment service providers; draft regulation: "On the transparency of fees related to payment account and for the service of payment account transferring", draft regulation: "On domestic settlement of national transfers in Euro", and also the draft regulation: "On direct interbank debit").

All these incentives in the market have produced some positive impacts. According to Bank of Albania's statistics, the annual growth of payment cards, through 2019-2020, was 4.8%, a growth tendency continuing through 2021, where for the first 9-month period there is a 5.4% growth in total portfolio of domestic payment cards. This is an interesting figure, because as per absolute terms of debit cards number for the 9-month period of 2021 there are in total 1.141 million cards, compared to 1.083



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million cards, by end-2020.

An increasing trend is also observed in acceptance terminal of payment cards. For 2019-2020 there was an increase of 4.4% in ATM terminals comparing to the 9M of 2021, while as per 2020 there was an increase of 10% in ATM terminals; an increase of 8.5% of POS terminals for 2019-2020, and also an increase of 9.9% for 9M of 2021-2020. A considerable increase is observed for e-money transactions, where the total number of payments through e-money means, during the first half of 2021, reached 78% of total number of e-money transactions for 2020. All of the above present a change in the Albanian customer's behavior. This change is in line with what is observed even in the international markets. In the MasterCard report: "Breaking through the Digital Noise" (2021), it is emphasized that 20 - 30% of global customer switch to online digitalization is expected to be permanent, meanwhile a 95%

increase is observed in online sales of July 2021, comparing to 2019.

The consolidation of payment trends during 2021, following 2020 as a benchmark year impacted from the pandemic, is observed not only at a global level, but also locally. Regional initiatives, such as a European Payment Scheme, or local schemes focusing in "tailored" products as per local requests, are increasingly becoming present in the market, aiming at consolidating actors in the payment industry. According to the Payment Innovation Jury report of April 2021, during 2018-2021, the confidence towards local/regional payment schemes has increased especially from higher investments being done from payment scheme providers, but also from the support by regulatory entities. The Capgemini report: "Payments, Top Trends 2021, Drivers, opportunities, and risks shaping financial services" emphasizes the advantages of local or regional schemes towards international brand payments schemes, related to: a) cost efficiency, transactional processing realized within the country; b) offering tailor - made products according to domestic market demands; c) support from local regulatory entities.

Having a high level of competition in the market, the solutions "payment as a service" are becoming more and more noticeable, as a fragmented solution from companies operating in a chain structure, aiming at minimizing operational costs. According to Capgemini Report on the payment trend analysis for 2021, some 68% of payment companies CEOs

included in their study, think that they have a higher risk of losing potential customers if they do not prioritize technological transformation. For this reason, "payment as a service" solutions are gaining momentum during these years. On the other hand, PaaS, are responsible for fraud increase, due to fragmentation of payment service. For the latter, payment service providers are considering to investing continuously in technologies, which detect and prevent fraud (Capgemini Financial Services Analysis, 2020), where 85% of companies included in the survey, are outsourcing their services to certified specialized third parties; 79% of them are enhancing in-house solutions for their mobile application; and 67% of them are increasing due diligence of outsourced third parties.

Capgemini report (Payments, Top Trends 2021, Drivers, opportunities, and risks shaping financial services), notes that payment institutions are offering products based upon customer data analysis. This is achieved through enhanced loyalty schemes that these institutions have launched. The same trend is also observed in our market, where loyalty schemes are being marketed through payment channels, especially through payment cards. In this way, these institutions are driving different payment channels, built in their application, aiming to the so-called "super application". These super applications are able to adapt all customer categories that payments institutions have (including those who need support in using digital services, but also youngster generation who are advanced in digital payment

services). The same report notes that digital identification of the customer is nowadays the key to offer innovative payment solutions. The combination of digital identification, mobile access and data analysis is a successful combination in offering added value services for the end-customer.

If we take a look at the American market, according to the last report from Endava, payment trend are summarized as per: a) "open banking" consolidation (also the Albanian market is moving towards the finalization of the draft regulation in this regard); b) revenue maximization from BNPL service (a feature associated to youngsters who are keen in immediate buying of quality products, with a short-term borrowing, up to 1 year); c) evolution of payment acceptance (in our market, banks are offering more acceptance channels for payments, as per their customer base portfolio).

In general, the last two years are showing that digitalization and innovation are not a differentiator anymore for payment providers in the market. On the contrary, maintaining a sustainable growth of market share, where payment service providers are sprouting like mushrooms after the rain, is paramount. This was observed in the latest study from Accenture (November 2021), including approximately 100 banks from North America, Europe, Asia, and Latin America, where it was emphasized the recommendation that banks should switch from their traditional business model, by aiming digital transformation through "outsourced" models, thus having a chance of increased annual revenues by 4%. And this where our market is heading for!