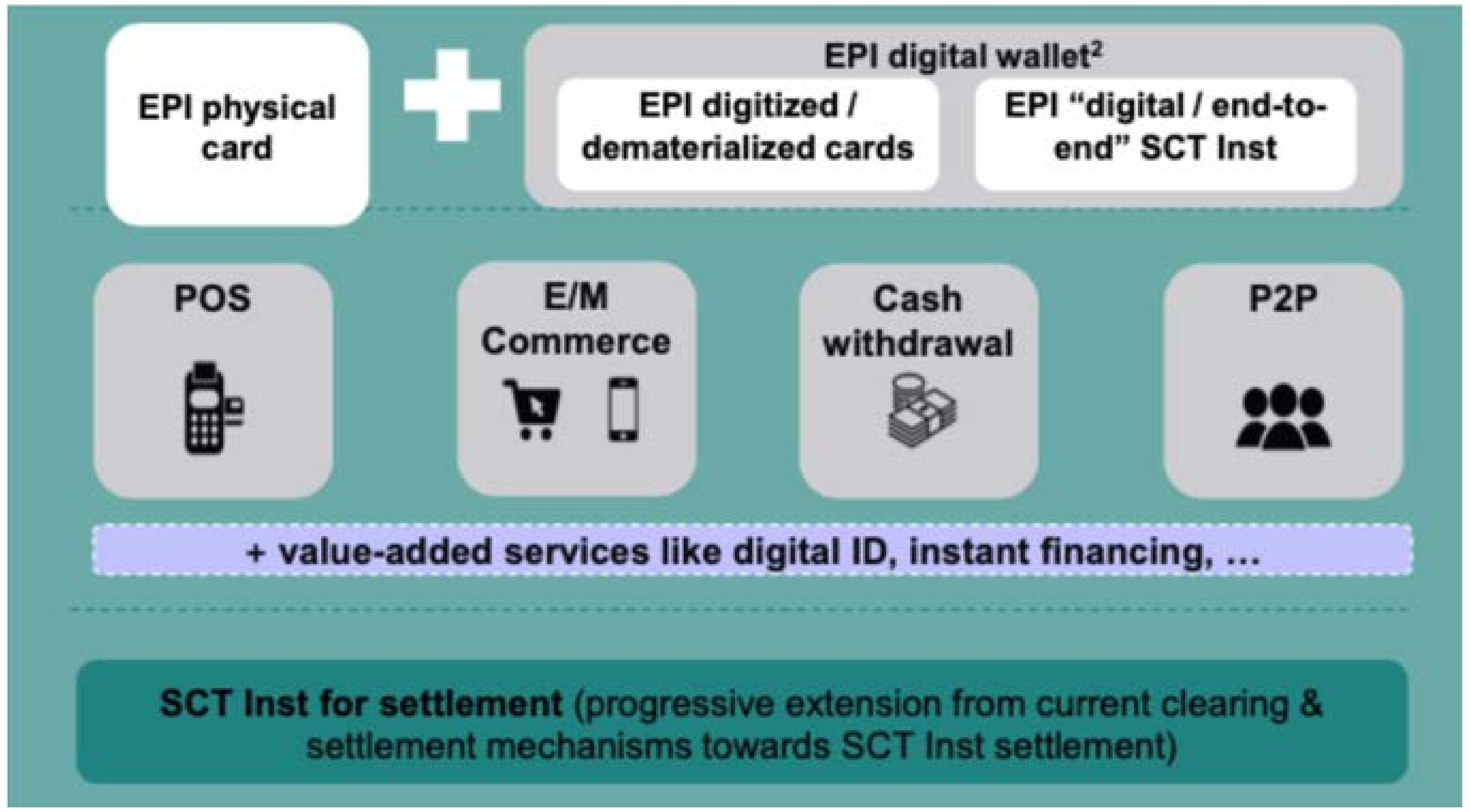
Embedded Finance and Payments Convergence: not to be underestimated by PSPs

Retail payments have historically belonged to one of two distinct groups: those that are card-based and those that are account-based – and never the twain shall meet. Or so we thought…The first were mainly designed to instantly pay for goods at a physical POS in a multicurrency world and were limited by the allowed transaction amount, whereas non-card payments were used to move money between bank accounts in B2B and/or B2C use cases without amount restrictions. Clearing and settlement were mostly deferred for all payment types.

And so it was that payments evolved along their own rails within the banks. All this has recently changed. **We are witnessing the rising adoption of account-based instant payments with their arrival at the physical POS and the overlay services enabled by ISO 20022**, while cards have become increasingly virtual, through tokenisation, the widespread adoption of apps like Apple Pay and the proliferation of prepaid digital wallets.

Especially in Europe, new payment methods are emerging from both payment categories, favoured by payment innovation introduced by PSD2 and by the EU Banking Industry, no longer willing to tolerate dominance by big tech and the US card networks.

Today's customers expect to choose how, when and where to pay. They don't care about how the payment is executed, provided that the initiation experience is one that is both safe and convenient, ideally seamlessly embedded in their preferred service or interface. **This is well understood by the EPI initiative, whose goal is to set the new standard for Retail Payments in Europe based on Instant Payments** to settle payments with merchants while issuing a new physical card and digital wallets to consumers.



Source: Connective Payments

While in this scenario the distinction between card- and account-based transaction becomes less relevant for the end user, the financial service provider needs to focus on promoting the most convenient payment tool and improving the processing efficiency of each payment rail, selecting the right channels to reduce costs, prevent fraud and optimise liquidity.

TAS has been working for many years to help PSPs face this convergence scenario, the new normal driven by digital wallets and open banking APIs.

We strongly believe that it is vital for banks and payment providers to adopt platforms that allow both card and non-card payments to operate alongside each other, providing a consistent customer experience, not just limited to in-store or in-app payment initiation, but extending throughout the transaction lifecycle, including fraud prevention, limit management, compliance, clearing and settlement, and dispute resolution.

There are many advantages for PSPs in partnering with the right technology provider who can help them achieve this goal throughout the entire value chain, from the app to the back-end processes, managing the choice of the most convenient settlement channel based on intraday/real-time liquidity management views and rules.

TAS has a vast experience in all the above-mentioned domains, complemented by state-of-the-art open and highly modular software platforms being continuously evolved and optimized for this purpose.

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