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Shaping the future of payments

Trends and insights for 2025

Contents

Introduction: The payments evolution continues 3

Trend 1: Cash finds its floor 4

Trend 2: Regulators bring nonbanks into the fold 5

Trend 3: BNPL moves to industry sectors 6

Trend 4: ISVs increase their SMB hold 7

Trend 5: AI drives fraud prevention to newer dimensions 8

Conclusion: What to do next 9

Contacts and contributors 10

Introduction: The payments evolution continues

In Deloitte's 2021 report, *The evolution of the payments value model*, we highlighted the payments "halo effect" and predicted the payments ecosystem would shift to compete for value based on why and how consumers make a payment.

A payments halo effect represents the different ways payments can bring consumers into an ecosystem. For example, for each consumer, having the "right" payment method options available (the "how") and presenting the right payment terms, such as immediate payment or installment plans (the "why"), so they can seamlessly complete the checkout experience.

Today, we're starting to see this reality take form as businesses embed various payment options into their checkout experiences. The payments industry continues to experience rapid change, with new players continuing to emerge; and they're all aiming to improve on the customer payment experience to provide more options for easier, safer payments. Over the next year, we expect five trends to contribute toward the ecosystem's ability to take further advantage of the payments halo effect.

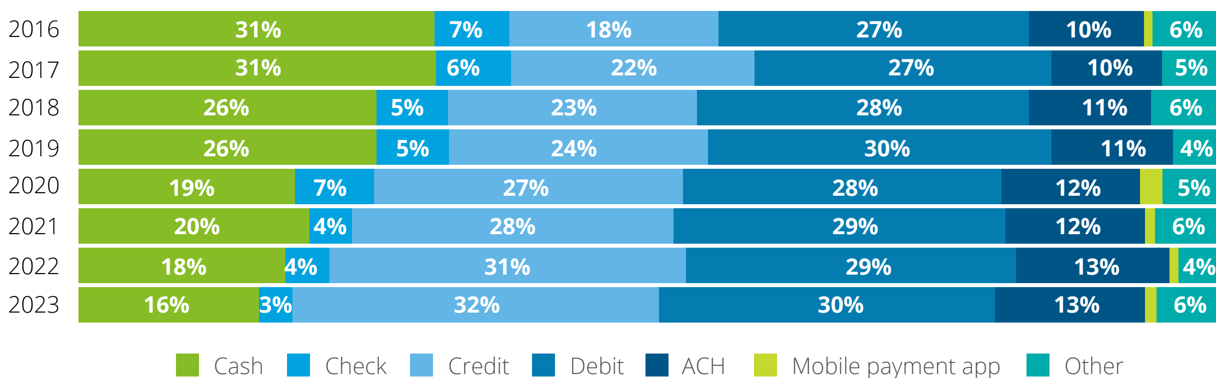
- **Trend 1: Cash finds its floor**–Consumers use credit cards, peer-to-peer (P2P), and other digital payments more frequently as checks move toward extinction and cash finds its floor.
- **Trend 2: Regulators bring nonbanks into the fold**–Expanded scope of banking regulation, to include nonbanks, will change the players of the payment market as some nonbank payment providers leave due to increased regulation.
- **Trend 3: BNPL moves to industry sectors**–Buy now, pay later (BNPL) and other digital payment options will expand into new sectors like housing and utilities, grocery, car payments and repairs, and travel, especially as consumers battle inflation and focus on nondiscretionary spending.
- **Trend 4: ISVs increase their SMB hold**–Small and midsize business (SMB) merchants gravitate to integrated software vendors (ISVs) for operational simplicity and provide pre-integrated payment rails, including consumers' go-to digital wallets.
- **Trend 5: AI drives fraud prevention to newer dimensions**–Artificial intelligence (AI)-driven fraud models will expand to better consider consumers' digital identity and personalized spend insights to combat the growing complexity of fraud.

TRENDS 1: CASH FINDS ITS FLOOR

Consumers use credit cards, P2P, and other digital payments more frequently as checks move toward extinction and cash finds its floor

With digital payment methods on the rise, checks have been slowly moving into extinction. Use of cash is also declining; however, we do not expect it to disappear as it continues to serve a purpose in the US payment landscape and appears to be approaching a set general usage level. When looking at the percentage of time US consumers use respective payment methods (figure 1), we can see check usage decreasing in favor of credit and debit card transactions. In addition, Federal Reserve data show both volume of check transactions and value of transactions decreasing at -7.4% and -8.1%, respectively in Q1 2024 year over year. We have also started to see the impact of the decrease in checks in the market with an increasing shift by e-commerce and physical retailers moving to "check zero" and the proliferation of new, low-cost digital payment methods.

Figure 1. Share of payment instrument use for all payments



Source: Federal Reserve.[1]

Global e-commerce volumes are projected to have more than quadrupled in the past decade, with total sales estimated to reach $6.3 trillion by year-end 2024.[2] While some e-commerce retailers, such as Amazon, may have allowed customers to pay via check upon launch, they have long since discontinued those options.[3] As consumers increasingly leverage these e-commerce options, they will need to pay for these online purchases with a digital option. Retailers with a physical footprint are also moving toward a "check zero" future. As of July 2024, Target no longer accepts checks, joining the ranks of Whole Foods, Old Navy, and Lululemon.[4] With these retail giants moving away from checks, other retailers are expected to follow suit to eliminate check processing costs and mitigate risks, such as fraud, associated with accepting checks. Checks are expensive for issuing banks and their business clients—the cost to issue a paper check is approximately $2 to $4 per check while the cost for a business to receive them is about $1 to $2 per check.[5] While the costs of check processing have declined, checks simply cannot compete with other payment methods such as ACH (at less than $0.50 per transaction) on a cost basis. With consumer preferences shifting to e-commerce and retailers moving away from accepting checks, it's only a matter of when, not if, checks become obsolete in consumer transactions. In B2B transactions, on the other hand, checks still play an important role in merchant payments; although treasury management services are looking to find efficiencies with digital payments, partially due to checks' higher operating costs.

Credit and debit card transactions, including peer-to-peer (P2P) transactions, have already started and will continue to grow in place of check payments. P2P transactions are often facilitated by ACH or credit/debit rails. As seen in figure 1, credit, debit, and ACH transactions have seen usage growth over the past seven years, as check usage has declined. For P2P transactions specifically, since 2021, usage of P2P payment apps has increased 12%, while cash and check P2P transactions decreased 10% and 2%, respectively.[6] Longer term, we expect to see digital payment methods evolve to become more frequently used by consumers; for example, tap-to-pay for digital currencies such as bitcoin and other cryptocurrencies, as well as point-of-sale devices may soon be able to read a user's blockchain address, make the transaction, and verify it immediately by using face ID.[7] These innovations are expected to take payments by storm as they can rival real-time payments in speed, cost, and, arguably, safety.

TREND 2: REGULATORS BRING NONBANKS INTO THE FOLD

Expanded scope of banking regulation to include nonbanks will change the players of the payment market as some nonbank payment providers leave due to increased regulation

In 2024, banking regulators began actively driving an expanded regulatory perimeter and escalated supervision via consumer protection channels. This will drive the need for significant risk culture changes and an internal assessment of a compliance framework, especially for nonbanking financial companies (NBFCs) operating in the payments space that are becoming subjects of regulatory scrutiny from banking regulators for the first time. This comes on the heels of heightened growth and new players in the space further catalyzed in October 2023 by the Consumer Financial Protection Bureau's (CFPB) proposed open banking rule meant to increase competitive consumer offerings.[8]

Signals of an evolving supervisory approach to nonbanks began in November 2023 with the Financial Stability Oversight Council's (FSOC) approval of frameworks placing attention on NBFCs and payment designations, in addition to amended guidance on designating NBFCs as systematically important.[9] The CFPB quickly followed suit, issuing a proposal that would allow depository-like supervision of payment applications and digital wallets with the CFPB estimating coverage of approximately 88% of nonbank digital consumer payment transactions.[10] Changing parameters in these spaces would subject NBFCs to additional privacy provisions and consumer protections that would require these companies to thoroughly examine applicability and their compliance/risk management organization, including whether they have the resources or structure in place to meet supervisory requirements.

The CFPB recently began to leverage some dormant authorities under the Dodd-Frank Act to identify new, evolving risks for examination. One example is the CFPB's interpretive rule released in May that mandates BNPL lenders offer consumers the same protections that apply to conventional credit cards, including the right to dispute charges and receive a refund from a lender after returning a purchase made with a BNPL loan.[11] Revived interpretations of rules catered to supervise new payment technologies and offerings may begin to influence NBFCs' involvement in the space as increased scrutiny and costs associated with new mandates may not be worth their efforts. Impacted companies will need to follow the CFPB's rules with some already beginning to negotiate agreements to better align with them.

As financial regulators increase their focus on ensuring their regulatory and supervisory programs are suited for the changing market landscape, NBFCs and banks partnering with third parties (and vice versa) should consider their own program's capabilities. Banks will likely show caution toward partnerships moving forward as they consider whether these third parties have structure in place to meet supervisory demands. Concurrently, third parties relying on banking partners will begin to feel the downstream effects of the formal enforcement actions against their banking partners, especially surrounding anti-money laundering and consumer protections—a means of indirect supervision by regulators. All of this further emphasizes one theme: expanded regulation of payments players is here to stay.

In the months ahead, regulators will continue their push to provide greater clarity and refine their scope around treatment of NBFCs and innovative banking products. Providers should prepare for the costs of compliance and culture shifts that will come with it. Those with scale and diversity across their products and offerings are likely the best equipped to handle the evolution. Their ability to leverage their resources and infrastructure already in place may give them the upper hand in the Open Banking era. Others may end up leaving the space altogether, and with it, their chances at a piece of the pie.

TREND 3: BNPL MOVES TO INDUSTRY SECTORS

BNPL and other digital payment options will expand into new sectors like housing and utilities, grocery, car payments and repairs, and travel, especially as consumers battle inflation and focus on nondiscretionary spending

Even as the US inflation rate decreases, it continues to put pressure on consumer spending habits and motivates many to seek new and innovative payment methods for their personal expenses. This is especially true as inflation does not appear to have slowed in many areas of nondiscretionary spend: Transportation services increased 18% in the past two years, and housing and utilities (e.g., rental/home insurance, electricity), leisure travel (which acts like nondiscretionary spend), and groceries are other areas where consumer spending is expected to concentrate.[12] To assist consumers with these rising expenses, the BNPL firms should consider expanding into new sectors of expected high consumer spend. For example, the amount of BNPL used for grocery purchases has risen 40% between early 2023 and 2024.[13]

Consumers will have the ability to use BNPL in new sectors as BNPL providers start to offer spending limits well in excess of everyday purchases. Affirm offers a $20,000 spending limit and PayPal offers a $10,000 spending limit.[14] This provides consumers with a new method for short-term financing at low interest rates. BNPL is also open to a large consumer base because it's open to borrowers with both strong and poor credit history. Studies from the Federal Reserve have shown that consumers who leverage BNPL are more likely to have a credit score below 620 and credit application rejections in the past year.[15]

BNPL was allowed to flourish with little relative oversight due to its innovative nature that did not fit into traditional regulations. As shared in Trend 2, the CFPB's interpretive rule released in May, which mandates BNPL lenders offer consumers the same protections that apply to conventional credit cards, will help protect consumers but also increase operational costs for providers. This creates a strategic advantage for banks that are accustomed to regulatory scrutiny; meanwhile, merchants do not appear to have a clear preference on bank-branded versus fintech-branded BNPL products. Barclays PLC, JPMorgan Chase & Co., and Deutsche Bank AG all offer BNPL products, and a recent survey by S&P Global Market Intelligence found that 33% of merchants prefer bank-branded BNPL compared to 32% that prefer fintech-branded BNPL.[16]

Given the appetite for low-interest financing, a large consumer market, and an influx of banks offering BNPL, we expect BNPL to grow in use. Financial institutions that do not already offer BNPL products should strongly consider offering these new payment capabilities. A good place to start may be in the areas of nondiscretionary spend for which consumers are feeling the continued effects of inflation.

TREND 4: ISVs INCREASE THEIR SMB HOLD

SMB merchants gravitate to ISVs for operational simplicity and provide pre-integrated payment rails, including consumers' go-to digital wallets

Payment providers need to appeal to both merchants and consumers to be successful, especially in the SMB market, which is driving 65% to 70% of net merchant acquiring revenues in the United States.[17] They need to be easy for merchants to enable, and the payment options need brand recognition and broad acceptance to promote consumer adoption. The payment providers that can achieve the right balance between these factors will gain market share, and we're seeing investments headed in that direction. Those that don't make the investments will likely be displaced.

Merchants are increasingly gravitating toward ISVs due to the comprehensive, all-in-one solutions the latter offers to streamline operations and enhance overall business efficiency. The ISV value proposition differs from that of traditional point-of-sale solutions in that it offers a larger digital suite, allowing businesses to manage their operations in addition to processing payments. Payment providers have noticed the shifting tide toward ISVs for operational simplicity and are adapting their product suite to improve market competitiveness. Stripe, for example, acquired Lemon Squeezy, which calculates and handles global sales tax for digital products to scale its merchant of record selling capabilities.[18]

In parallel, consumers will gravitate, if they haven't already, to their "go-to" digital wallet. In North America in 2023, digital wallets reached 37% of regional transaction value in e-commerce payments, representing more than $748 billion, and 15% of regional transaction value in point-of-sale transactions, representing more than $1.7 trillion. The rising popularity of digital wallets among consumers has led to increased competition and has pushed merchants to offer innovative payment methods at checkout. It is in their best interest, as 70% of consumers say preferred payment method availability highly influences their online store choice.[19] The increasingly crowded field of digital wallet providers like PayPal, Apple Wallet®, and Google is seeing new entrants, such as Paze, a digital wallet created by Early Warning.[20] This is a testament not only to the fact that digital payments are here to stay, but that providers looking to compete in the space will need to differentiate themselves, potentially by offering different ISV integrations to form a holistic product suite for merchants that attracts consumers.

Providers that will succeed in the crowded digital payments space are those that innovate given the market environment and available opportunities. For example, following a 2024 EU Regulatory ruling, Apple® has enabled access to its near-field communications (NFC) technology, allowing third-party developers to offer other digital wallets using NFC transactions via the Apple App Store®, thus removing the requirement to use Apple Pay® and Apple Wallet®.[21] Social media platforms are also recognizing an opportunity to capitalize on consumer preferences in digital payments and direct more payments through their native checkout experience. All US merchants on Meta must now use Checkout on Facebook and Instagram—a means to keep shoppers within the Meta ecosystem and provide an end-to-end discovery and shopping experience that has yet to be seen in the traditional merchant checkout experience. (Learn more: In-app payments should take social commerce to the next level)

TREND 5: AI DRIVES FRAUD PREVENTION TO NEWER DIMENSIONS

AI-driven fraud models will expand to better consider consumers' digital identity and personalized spend insights to combat the growing complexity of fraud

As AI adoption continues to accelerate across industries, the trend is specifically affecting the payments industry through its role in fraud models. AI has prominent use cases on both sides of the fraud landscape: AI-driven scams by fraudsters *and* AI-driven defense (detection and prevention) from financial institutions.

Using Generative AI (GenAI), individual fraudsters can perform more sophisticated and scalable fraud without a significant increase in time or resources required. As a result, fraud will continue to increase in complexity and velocity as fraudsters use AI to enhance scams, manipulate customers to authorize transactions, and continue to steal credentials. Deloitte's Center for Financial Services predicts that GenAI could enable fraud losses to reach $40 billion in the United States by 2027, up from $12.3 billion in 2023.[22]

Financial institutions can combat the increased complexity and velocity of fraud by leveraging AI (including GenAI) to develop faster detection models and to gain insights into emerging fraud trends and networks. Among the earlier adopters are Visa and Mastercard, which are using in-house AI fraud prevention tools. Mastercard's solution unlocked a 300% increase in speed to flag merchants compromised by or at risk of fraud, and Visa enabled an 85% reduction in false positives.[23] Likely due to these early success stories by key industry players, 83% of financial institutions are eyeing GenAI to enhance their fraud-fighting capabilities.[24]

GenAI advancements enable financial institutions to both improve fraud detection and limit false positives, which allows for a smooth customer experience and minimizes lost payments.

A customer's digital identity, or the full range of data produced by one's activities on the internet, is a key input to enabling fraud detection and prevention through AI. Therefore, the integrity and accuracy of each customer's digital identity is paramount to fraud detection and prevention improvement. At the Conference on Artificial Intelligence and Financial Stability in June 2024, securing the digital identity was a key topic, with speakers highlighting the need for "a shared responsibility framework" between payments players, regulators, and central banks to begin developing digital identity standards.

Financial institutions are also working to improve the fraud-related personalized insights they can offer their customers, including spending patterns and forecasts of upcoming expenses. For example, Capital One's "Eno" virtual personal assistant can flag potential errors on tips and alert customers of unusually high recurring payments.[25] In addition to homegrown GenAI tools, Wells Fargo[26] and other organizations are integrating Google's Dialogflow for chatbots that provide customers with valuable insights including spending patterns, upcoming expenses, or unusual activity. The personal insights that financial institutions are generating can be used to aid the behavioral analysis integrated into fraud models and ultimately determine the likelihood of a customer making a certain transaction.

Conclusion: What to do next

Payment leaders are at a junction point within the payments competitive landscape and need to determine how to differentiate themselves moving forward—both to merchants and to end consumers. What will these trends do to the payment ecosystem's competitive landscape? How will new technology advances, especially in AI, change the evolving ecosystem? What will consumers demand from their payment providers?

At a minimum, when setting future strategy, payment leaders will need to personalize product design and insights delivered, reinforce their firm's core foundation in scale and security, and provide access to their payment services in alignment with how consumers want to spend their money. The changing market environment—regulatory changes, economic changes, ongoing technological changes—will affect how consumers and merchants view payments. The key will be to continue aiming for a secure, seamless payment experience that provides consumers payment options.

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