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The 2024 McKinsey Global Payments Report

Global payments in 2024: Simpler interfaces, complex reality

October 2024

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Global payments in 2024: Simpler interfaces, complex reality

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The tantalizing vision for global payments has long been that they'd be safe, simple, quick, inexpensive, and ubiquitous. This promise has come closer with each new technological advance. However, instant payment systems have ushered in the Decoupled Era, a term coined in last year's Global Payments Report.[1] In this new world, while payments are getting quicker, they are increasingly disconnected from accounts, and players have proliferated, fragmenting the value chain, increasing complexity, and endangering the vision.

With $1.8 quadrillion flows in global payments annually, even small shifts in how payments are delivered can reshape not just companies but entire sectors of the economy. For example, digital wallets and online payment methods have boosted online shopping, and more efficient payment systems have helped streamline supply chain operations and improved businesses' cash flows.[2]

This year's report examines the evolving global payments ecosystem and highlights where players can capitalize on new dynamics. Our analysis is based primarily on McKinsey's Global Payments Map,[3] which covers more than 25 payment products in 48 countries and accounts for more than 90 percent of global GDP.

We start by examining the overall payments industry, how it has grown, and the rate at which that growth can be expected to continue. Then, we look at six trends shaping the industry over the next several years. Lastly, we describe three areas where operators and disrupters will want to invest to be well positioned over the next few years.

Highlights include the forecast that total payments revenues will grow 5 percent a year from 2023 to 2028, held back by declining interest rates. We also expect the continuing proliferation of instant payments, fueled by new use cases, such as instant payouts for gig economy workers. Specialized intermediaries could further fragment the value chain, adding complexity and, in some cases, cost. Finally, the expanding cost of fraud is spurring regulators to address it more aggressively and payments players to invest in increased security.

In 2023, the global payments industry handled

3.4 trillion transactions

Global payments revenues will continue to grow

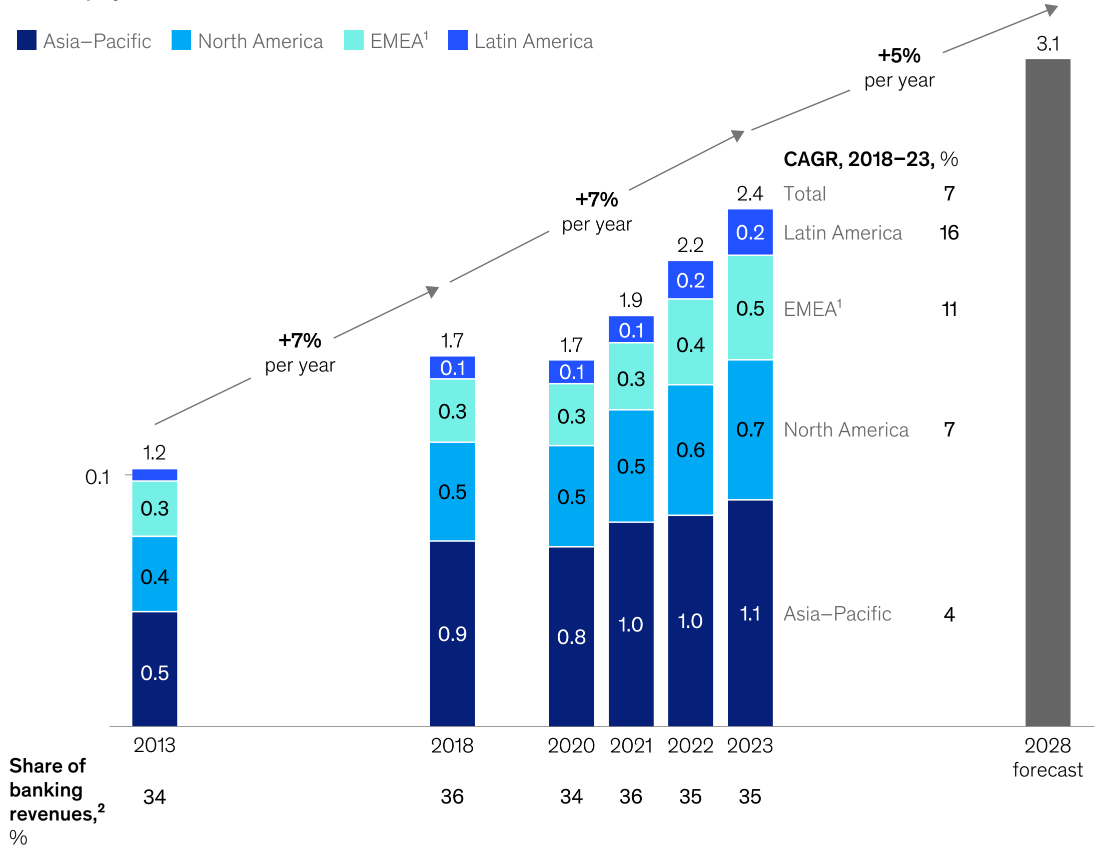
In 2023, the global payments industry handled 3.4 trillion transactions, accounting for $1.8 quadrillion in value and a revenue pool of $2.4 trillion. Revenues grew 7 percent annually from 2018 to 2023, supported by continued consumer and commercial transaction digitization and higher interest rates. Our analysis suggests revenue growth will be slower in the next few years at 5 percent a year, in line with expected nominal GDP growth. This will result in an additional $700 billion of revenue, for a total of $3.1 trillion by the end of 2028 (Exhibit 1). That's 35 percent of the total banking revenue pool, a share that underlines the importance of payments to banks and the significance of investing in payment technologies to stay ahead of competition from specialist players.

[1] "On the cusp of the next payments era: Future opportunities for banks," McKinsey, September 18, 2023.
[2] Supply Chain Brain's *Think Tank,* "More efficient payments means more efficient supply chains," blog entry by Sven Hinrichsen, June 1, 2023.
[3] "Global Payments Map," McKinsey, accessed October 2024.

Exhibit 1

Global payments revenue grew seven percent per year from 2018 to 2023.

Global payments revenue, 2013–28F, $ trillion



Note: Figures may not sum to listed totals, because of rounding.
[1]Europe, Middle East, and Africa. Growth projections exclude Russia.
[2]Total banking revenues (fee and interest) before risk cost.
Source: McKinsey Global Payments Map

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Net interest income contributes approximately 47 percent to the total payments revenue pool. This represents a three-percentage-point share increase from 2021, a year marked by historically low interest rates in most markets.

We expect transaction-related revenue growth to slow, based on three trends. First, sluggish growth in GDP and personal expenditures will drag down payments value growth. Second, the transaction mix will shift from high-yield credit cards toward lower-yield account-to-account payments, including electronic funds transfers and instant payments. Finally, regulatory pressure on card interchange fees, which contributed 49 percent of transaction-related revenues in 2023, might limit rate increases or even reduce rates in some markets.

Net interest income is forecast to experience a more pronounced decline in growth between 2023 and 2028. We expect it to grow 4 percent a year, notably lower than the 7 percent of the prior five years. This will be due to margin compression, with interest rates in many major markets peaking in the first half of 2024 and deposit growth slowing with the continued transition from low-yield checking deposits to higher-yield products.

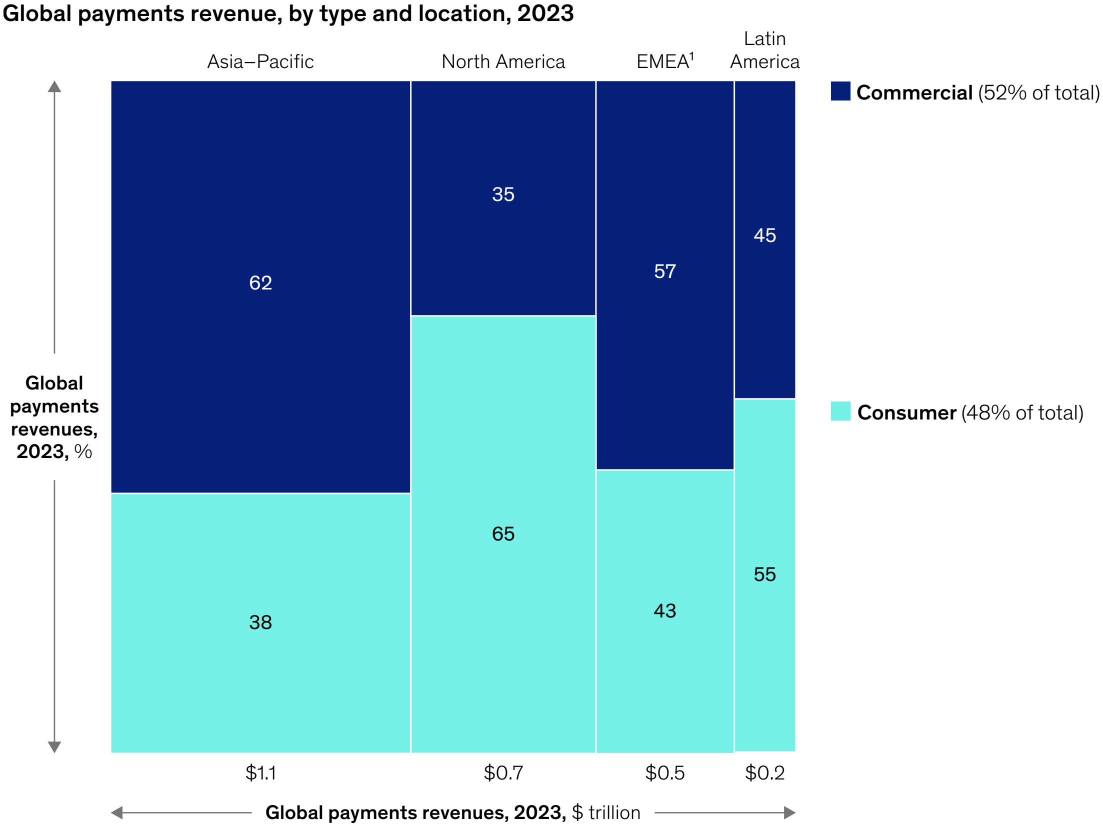
The global payments revenue pool remains robust and promising. It grew 11 percent in 2023, propelled by a spike in interest rates, and generated more than $2.4 trillion—an all-time high in line with the projections in last year's report. Revenue growth was broadly distributed; Europe, the Middle East, and Africa (EMEA) and Asia–Pacific contributed two-thirds, in line with the revenue distribution for 2023. These solid results and an expected 5 percent growth rate keep the market on pace to meet McKinsey's five-year forecast of more than $3.1 trillion in payments revenue by 2028.

Another way to look at payments revenues is through the commercial and consumer customer segments and the products in each group. The five years from 2018 to 2023 witnessed a steady and significant revenue shift from consumer to commercial in every market. Asia–Pacific commercial revenues increased from 60 to 62 percent, EMEA from 53 to 57 percent, North America from 33 to 35 percent, and Latin America from 41 to 45 percent (Exhibit 2).

Exhibit 2

Asia–Pacific accounts for nearly half of global payments revenue.

Global payments revenue, by type and location, 2023



Note: Figures may not sum to 100%, because of rounding.
[1]Europe, Middle East, and Africa.
Source: McKinsey Global Payments Map

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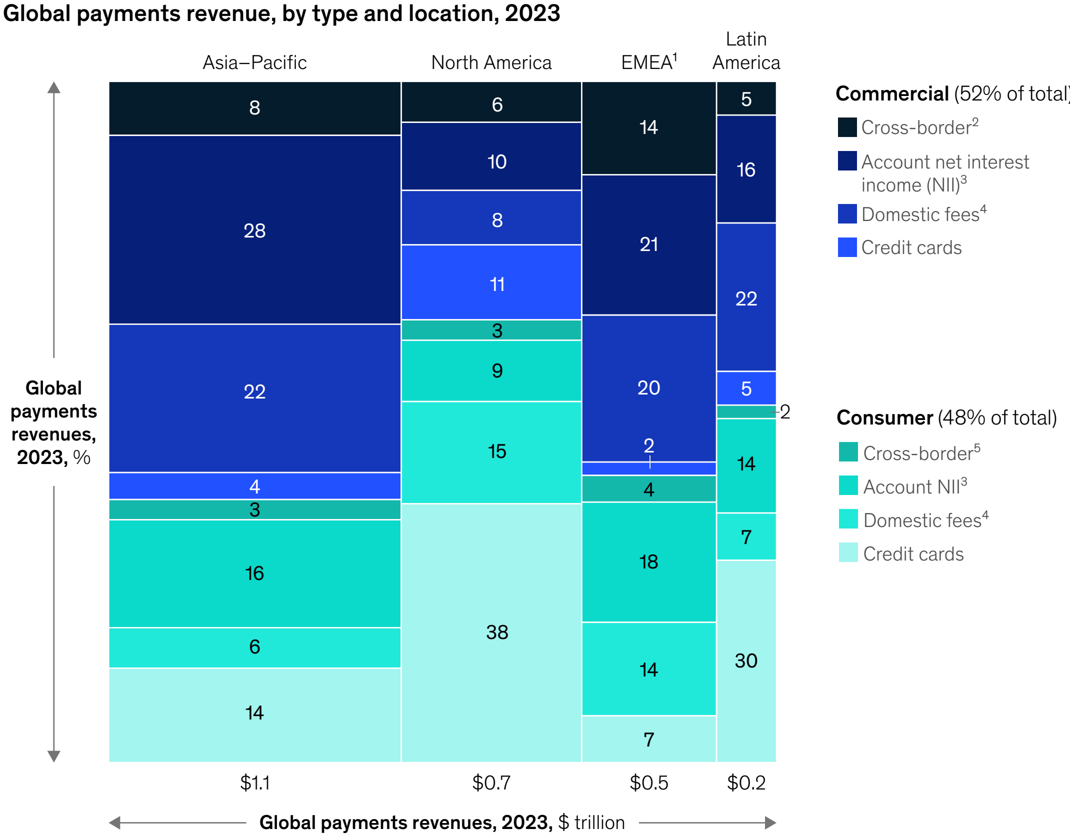
Exhibit 2 continued

Global payments revenue, by type and location, 2023



Note: Figures may not sum to 100%, because of rounding.
[1]Europe, Middle East, and Africa. [2]Cross-border payment services (B2B, B2C). [3]Net interest income on current accounts and overdrafts. [4]Fee revenues on domestic payment transactions and account maintenance (excluding credit cards). [5]Remittance services and C2B cross-border payment services.
Source: McKinsey Global Payments Map

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Six trends will define the next five years

Over the past decade, the combined market capitalization of specialist payments companies has increased from $400 billion to $1.4 trillion.[4] In addition, over the past five years, there has been an explosion in fintech unicorns; more than 384 with a combined valuation of $1 trillion came online, a tenfold increase from 39 unicorns five years ago. These conditions set the backdrop for the six trends we expect will define the next five years.

1. The decline of cash will continue unevenly

Global cash usage now stands at 80 percent of 2019 levels and continues to decrease at 4 percent a year. The $26 trillion in payments still made in cash represents a massive opportunity for digitization, but the transition will unfold differently in different regions.

[4] McKinsey Panorama Innovation; Dealroom.com.

Over the past decade, the combined market capitalization of specialist payments companies has increased from

$400 billion to $1.4 trillion

Instant payments are rapidly replacing cash in developing markets with low card penetration, such as India, Malaysia, and Indonesia.[5] In India, the share is expected to decline from 23 percent of consumer spending to less than 10 percent by 2028. In parallel, credit card usage is growing from a low base as consumers are attracted by credit availability and rewards programs.

In card-dominated markets such as the United States, where cash transactions represent just 5 percent of the value of consumer payments, cash usage will continue the gradual decline initiated by the COVID-19 pandemic. The decline will also continue gradually in developed economies with a strong cultural preference for cash, especially among older people. For example, we expect the cash share of consumer payments in Japan to drop from 28 percent in 2023 to 22 percent by 2028. The rate of decline will slow to 1 to 2 percent per year for 2023–28 from 3 percent for 2018–23.

2. Instant payments will continue to displace other payment methods

Domestic payment systems have modernized rapidly worldwide over the past two decades. Real-time payments infrastructures have been established in every major market except Canada. They have been supplemented with innovations such as QR code enablement, digital wallets, open banking, and biometric authentication and propelled by an increased urgency for countries to establish national payment systems. We believe these new methods will accelerate the phasing out of cash and checks. Cards, however, will continue to be an essential payment method for years to come, for open-loop payments such as Mastercard and Visa and closed-loop payments like employee cards.

We see two types of markets for instant payments: one where cards are entrenched, as in the United Kingdom and the United States, and the other where cash and cash equivalents have been the historic incumbent, as in Brazil and India.

In card-concentrated markets, instant payments will have difficulty displacing cards for C2B commerce but will account for some of the growth. The largest displacement opportunities are in bill payments, where checks or cash are today's preferred payment method. In the United States, payments via Zelle have grown, since the app's 2017 launch, by an average of 50 percent yearly and by more than 100 percent in consumer payments to small businesses.

In historically cash-heavy markets, instant payments will likely capture C2B share over the next few years in both point of sale (POS) and bill-pay, often with government support. This is already happening in markets like Brazil, India, and Thailand. In Brazil, cash payments are migrating from Boleto, a barcode-based voucher system, to Pix, an instant-payments rail.

[5] Romina Bandura and Sundar R. Ramanujam, "Developing inclusive digital payment systems," Center for Strategic and International Studies, September 21, 2021.

In these markets, three key initiatives have driven the adoption of instant payments. First, regulatory mandates have enabled network effects, overlay services, interoperability, and innovative use cases. Second, merchant propositions have become more competitive, with price differentiation, better fraud prevention, and higher authorization rates than cards. Third, consumer propositions have become more compelling, including higher transaction limits, enhanced fraud protections, and widespread availability among channels and counterparties.

We expect similar interventions in the European Union to boost adoption as new instant-payment regulations will enforce cost parity. We estimate that the number of instant-payment transactions in the European Union will increase from around three billion today to almost 30 billion by 2028, an average annual growth rate of 50 percent.

3. Growing adoption of digital public infrastructures will catalyze digital payments
Digital public infrastructure (DPI) initiatives in markets like Brazil, Estonia, and India have supported competitive, robust, inclusive, and efficient digital payments ecosystems. Critical prerequisites for a DPI are a comprehensive digital ID system, common standards for application interfaces, interoperability among financial services providers, and the inclusion of nontraditional data sources.

We expect to see a broader rollout of DPI initiatives in emerging markets through a combination of imported technology, such as the India Stack (see sidebar, "Development of digital infrastructure in India"), and domestic builds, such as the Singapore Financial Data Exchange. Markets as far afield as Indonesia, Nigeria, and Peru will benefit from the next wave of DPI adoption. Developed economies without such initiatives may be constrained in their ability to combat fraud or support the digitization of services.

Development of digital infrastructure in India

India launched its digital infrastructure stack in 2010 with Aadhaar, a biometric digital ID.[1] Until then, nearly half the population had no universally recognized ID card. The Indian banking sector leveraged Aadhaar to verify customer identities instantly, significantly reducing fraud risk. Coupled with the government's push for financial inclusion through the prime minister's public finance scheme, Aadhaar helped increase bank account ownership from 35 percent in 2011 to 80 percent by 2017.[2]

The second part of the stack is the Unified Payments Interface (UPI), a mobile app that facilitates interbank peer-to-peer and person-to-merchant transactions.

A third initiative, the Open Credit Enablement Network, leverages the stack's open data ecosystem to digitize the lending process and facilitate financial access for the informal sector.

DPI frameworks like India's can empower economies by promoting financial inclusion, fostering innovation, and limiting fraud. India is making active strides to export its DPI technology. It has successfully launched UPI in ten countries, including Bhutan, Nepal, Singapore, and the United Arab Emirates.[3]

[1] "About UIDAI," Unique Identification Authority of India, accessed October 2024.
[2] See Cristian Alonso et al., *Stacking up the benefits: Lessons from India's digital journey,* IMF working paper number 23/78, March 2023.
[3] "UPI to be expanded in 20 countries by RBI," ICICI Direct, June 20, 2024.

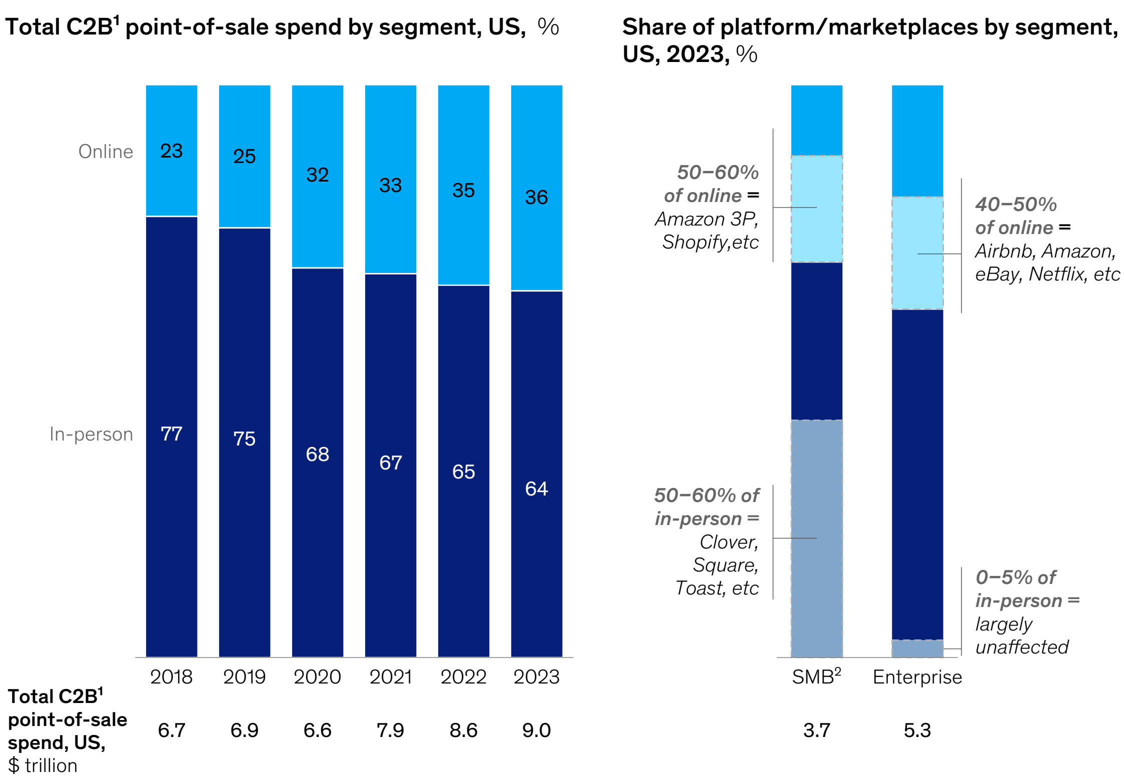
4. Intermediaries will continue to take share from incumbents

Commerce is aggregating onto platforms such as Shopify, Square, and Toast, as well as marketplaces like Amazon, eBay, and Etsy. We estimate that these venues combined process 30 percent of global consumer purchases today, equal to 25 to 30 percent of spending in the European Union and 35 to 40 percent in the United States (Exhibit 3). The share is higher in the small and medium-size enterprise (SME) segment, where players including Square, SumUp, and Toast offer integrated solutions as independent software vendors (ISVs). These platforms and marketplaces increasingly outsource processing to merchant acquirers such as Fiserv and Global Payments at wholesale prices while controlling the customer experience and earning higher margins on value-added services.

ISVs create applications and platforms that integrate payment-processing functionality into existing solutions, such as POS systems or customer relationship management tools, typically for specific verticals such as healthcare and retail. SME merchants often lack the resources and expertise to manage sophisticated technology stacks, so they are attracted to these one-stop solutions with integrated payment processing and software functionalities. McKinsey survey data shows that vertical-specific software solutions captured more than 50 percent of SME spending in 2023 in the United States. Under pressure from disrupters, incumbent scale acquirers with legacy processing systems are losing margin

Exhibit 3

As online spending has grown, it has largely consolidated into platforms and marketplaces.



[1]Consumer-to-business.
[2]Small and medium-size businesses.
Source: McKinsey US Payments Map

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from card transactions even as they retain processing volumes. Some are responding by offering their own ISV solutions: Fiserv has established Clover, a cloud-based POS platform, while Global Payments has acquired a spectrum of vertical-specific ISVs.[6]

Banks that provide merchant services to SMEs are adopting a variety of strategies. JPMorgan Chase and Bank of America mainly cater to SMEs with direct sales through their branch networks, but to enhance their competitive edge, both offer the NCR Silver POS software platform. In contrast, Elavon, a subsidiary of U.S. Bank, offers its own ISV solution, Talech, which it distributes through its branches and independent sales organizations.[7] Meanwhile, other major banks partner with established providers like Fiserv for their merchant-acquiring services.

On the enterprise side, digital-native merchants like Airbnb and Netflix are growing more rapidly than their offline counterparts, capturing a larger share of total commerce and driving down acquiring fees.[8] They are turning to modern global acquirers such as Adyen and Stripe, attracted by their comprehensive payment method coverage, omnichannel solutions, and flexible operating models. This is changing the role of traditional acquirers, which are increasingly relegated to providing commoditized payment processing.

Currently, most ISVs are focused on growth rather than profitability. However, as the market shifts its focus to profitability, we anticipate that ISVs will extend down the value chain into payment facilitation, capturing a larger share of revenues and a corresponding share of cost and risk.

5. Transaction banking will mimic consumer experiences

In recent years, transaction banking has become a differentiator and a rich source of fee income for leading institutions. Large global banks like Citi, DBS, HSBC, and JPMorgan Chase have emphasized their transaction banking units on recent investor days, looking to attract the higher valuation multiples attached to payments businesses and recurring fee income.[9] Other players, such as Santander with its PagoNxt offering, have taken steps toward running payments as stand-alone businesses.[10] Still others, such as Goldman Sachs and Royal Bank of Canada (RBC), have launched new transaction banking business units in the United States to capture deposits and fee income.[11]

We expect commercial customers to demand and receive intuitive interfaces like those they encounter in their personal lives. Meanwhile, technological advances will help solve reconciliation problems and streamline supply chain finance with faster and deeper integration of bank and corporate systems. Banks will not have it all their own way, with multiple disrupters like Banking Circle and Modern Treasury and vertical-specific players like Flywire looking to capture a slice of the B2B payments pie.

Looking ahead, competition will continue to increase as new players enter the market and traditional players invest to defend their shares. For corporates, these developments will herald a substantial improvement in functionality and user experience in the corporate back office.

[6] John Stewart, "How global payments looks to ISVs, payfacs, and M&A to spur growth," *Digital Transactions,* August 7, 2024; "Global payments to acquire ISV ACTIVE Network," *Payment Facilitator* (Infinicept), August 3, 2017.
[7] "Payment integrations for every business need," Chase, accessed October 2024.
[8] Juozas Kaziukėnas, "E-commerce alone keeps retail sales growing," Marketplace Pulse, August 21, 2024; Len Prazych, "E-commerce sales up 1.3 percent in 2nd quarter," *Board Converting News,* September 4, 2024.
[9] Jeremy Barnum, *Firm overview,* JPMorgan Chase Investor Day 2023, New York City, NY, May 22, 2023.
[10] "Merchant services for small businesses," U.S. Bank, accessed October 2024.
[11] "Goldman Sachs launches transaction banking in the UK," Goldman Sachs press release, June 21, 2021; Steve Slater and Gareth Gore, "Goldman to ramp up transaction banking to 36 countries," *International Financial Review,* February 18, 2022; "RBC Capital Markets launches RBC Clear™, a cash management solution that will focus on Fortune 1000 corporations in the United States," RBC press release, April 16, 2024.

6. CBDCs will set the baseline for digital currencies

More than 90 percent of central banks are pursuing or considering central bank digital currency (CBDC) projects, and more than 30 have rolled out pilots, including Australia, Brazil, and France.[12] However, the initial excitement about the disruptive potential of CBDCs has waned, given the limited uptake so far. Banks have not been disintermediated, and in many countries, consumers have treated their CBDC portfolio as just another wallet.

Despite this, we foresee CBDCs playing three roles in payments: First, they will set the minimum base level of functionality, cost, and services that users can expect from a digital currency. They also will provide an alternative to help keep the price of commercial offerings in check. And finally, they will serve as an alternative to large but often opaque private-sector stablecoins. The importance of these roles may ensure a long-term, if unglamorous, future for CBDCs.

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Capturing the next $1 trillion in growth

As the payments ecosystem continues to expand, it is evolving rapidly. Customer preferences and the regulatory environment are pushing a significant share of payments by consumers, businesses, and corporations to be executed in real time.

We see three main areas where operators and disrupters will want to invest: instant payments offerings in margin-rich segments where they have the ability to succeed; improvements to anti–money laundering (AML) and fraud prevention systems, including new technologies like AI; and infrastructure and systems that can operate reliably at high volumes.

Deciding where to play in instant payments

Instant payments enable innovation in every retail and corporate segment. Of these, cross-border payments; treasury management, comprising accounts receivable (AR) and accounts payable (AP); and payouts, refunds, and payroll are particularly interesting.

Cross-border payments. Cross-border payments have historically been slower, more expensive, less transparent, and characterized by worse user experiences than domestic payments. With the growth in the domestic adoption of instant payments, customer demand and regulatory pressure to close the gap have grown.

[12] Anneke Kosse and Ilaria Mattei, "Making headway—results of the 2022 BIS survey on central bank digital currencies and crypto," *BIS Papers,* July 10, 2023; Central Bank Digital Currency Tracker, Atlantic Council.

Some bilateral initiatives to connect domestic instant-payment schemes, including between Singapore and Thailand and between Singapore and India, are already live. Others, like the Arab Regional Payments Clearing and Settlement Organization, or Buna-NPCI, are at an early stage.[13] However, to fully address this opportunity requires multilateral connections. Project Nexus, an initiative backed by the Bank for International Settlements, is a model of how multilateral cross-border instant payments can work, having demonstrated a successful connection between Malaysia's Real-Time Retail Payments Platform (RPP) and Singapore's Fast and Secure Transfers (FAST) payment system.[14] The central banks and instant-payments operators in India, Malaysia, the Philippines, Singapore, and Thailand are now working toward live implementation of Nexus in those countries.

Several bodies are working to drive integration in their regions. In March 2024, the European Union enacted a new regulation on instant payments to overcome current obstacles to adoption and encourage widespread use.[15] It requires that institutions providing traditional euro transfers also offer instant payments with aligned pricing, and it includes measures to ensure security while safeguarding customer experience. The European Commission is also promoting the development of an International Bank Account Number (IBAN) check scheme to overcome limitations in the cross-border verification of beneficiaries.[16]

Consequently, cross-border payments are evolving rapidly, underscoring the necessity for payments players to lead with distinctive new capabilities. These might include mobile-first cross-border remittances in retail or comprehensive digital platforms for international trade with cross-border services for SMEs. Early leaders include Wise for retail and Airwallex for SMEs. Incumbents such as DBS, with Globesend, and HSBC, with Global Disbursements, also are responding rapidly.

Adoption is growing quickly. Twenty-three percent of UK SMEs regularly use fintechs and other nonbank providers for their cross-border payments—significantly higher than the 13 percent for domestic transactions.[17] The proportions are higher for smaller concerns, accounting for 30 percent of cross-border transactions for micro businesses (Exhibit 4). Sixty percent of SMEs indicated a willingness to switch their cross-border payment providers at a similar or higher cost, highlighting an opportunity for disruption. This will be a key battleground for the foreseeable future; winners will be those that solve customers' problems and provide superior experiences.

Treasury management (AR and AP). The digitization of the office of the CFO is accelerating, bringing increased sophistication to the function. CFOs' needs are evolving, and pain points include limited real-time visibility of global transactions, manual payment reconciliations, and non-standardized invoice processing. The ISO 20022 standard for financial industry messaging, a key feature of modern instant payments, enables automated reconciliation with consistent, rich, structured data. With a regulatory push in places like Brazil, Colombia, and Saudi Arabia, greater digitization of invoicing will unlock access to working capital finance for underserved SMEs.

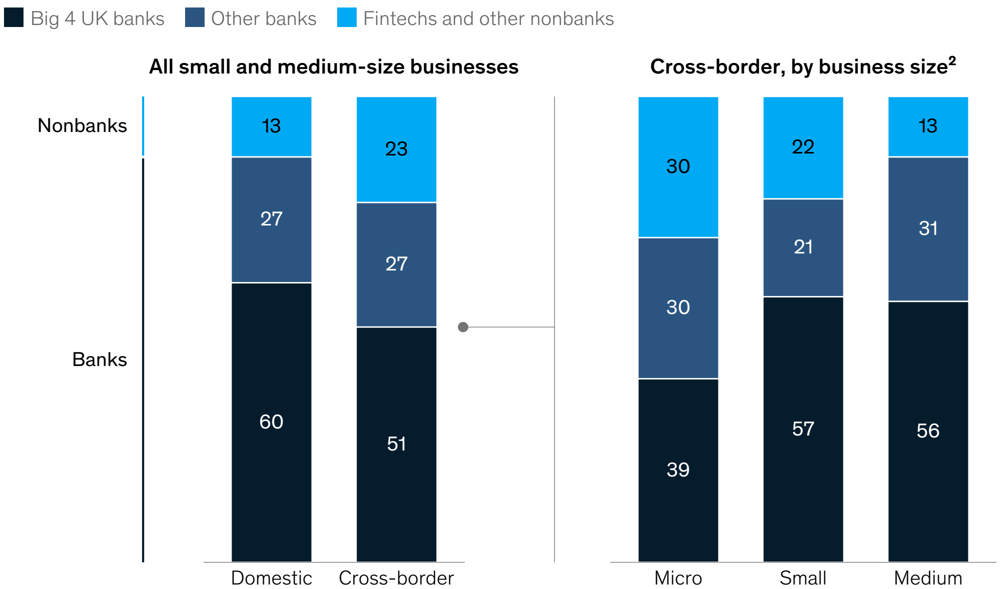
Longer-established fintechs such as Taulia and C2FO are scaling, and specialized players, such as KLYM in Colombia, are emerging independently or in partnership with banks.[18] In this increasingly complex and evolving landscape, banks, which still maintain ownership of critical client relationships, must navigate

[13] Richie Santosdiaz, "Overview of Buna payment platform across the Middle East and Africa," *Fintech Times,* June 18, 2022; "The Arab Monetary Fund (AMF) signs MoU with NPCI International Payments Limited (NIPL) to facilitate cross-border payments via Buna and Unified Payment Interface (UPI), to enhance economic and financial ties between India and the Arab region," Buna press release, March 8, 2022.
[14] "Project Nexus: Enabling instant cross-border payments," BIS Innovation Hub, July 1, 2024.
[15] EU Regulation 2024/886. See "New regulation on instant credit transfers – key takeaways," Elvinger Hoss, June 4, 2024.
[16] "Payment services: Revised rules to improve consumer protection and competition in electronic payments," European Commission, June 28, 2023.
[17] SME Wallet Cube, a McKinsey tool for analyzing SME payments.
[18] "Taulia announces 2022 results with new client wins doubling year-over-year," Taulia press release, February 22, 2023.

Exhibit 4

Small and medium-size businesses are turning to nonbank providers for cross-border payments.

Preferred cross-border payment services provider,[1] % of total respondents



Note: Figures may not sum to 100%, because of rounding.
[1]Q: *What is your preferred service provider for payments outside the UK?*
[2]Small and medium-size businesses grouped by revenue: micro, <£2 million; small, £2 million–10 million; medium, £10 million–45 million.
Source: SME Wallet Cube, a McKinsey tool for analyzing SME payments

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developing and packaging their SME and corporate offerings. This will require deciding which services to build in-house, identifying potential partners for specialized solutions, and possibly orchestrating a network of partnerships to stay relevant and competitive.

Payouts, refunds, and payroll. Instant payments can support companies' relationships with their employees and customers. Employers can enhance worker satisfaction and retention by facilitating immediate compensation, particularly in the gig economy, where rapid access to earnings is crucial. Ride hailing firms have leveraged traditional and instant-payment rails to allow drivers to cash out instantly. Instant payments can allow companies to enhance customer satisfaction and loyalty; merchants can immediately credit customers' bank accounts for product returns, and insurers can provide immediate payouts for claims. New players in the insurance sector have made fast claim management and settlement a key component of their value proposition. Lemonade, for instance, claimed in 2023 to have set a world record with a two-second insurance payout using AI and machine learning.[19]

[19] "Lemonade sets new record by settling claim in two seconds," Insurtech Insights, June 14, 2023.

Being the first to offer instant-payment solutions, such as for gig economy workers or employees, can be a significant differentiator for payments players. These capabilities are poised to become industry standards, requiring swift action and adaptation from competitors. Companies' agility in adopting and launching new products will determine whether they can seize a competitive advantage or keep pace with evolving market expectations.

Prioritizing the fight against financial crime

Fraud in online commerce is rising twice as fast as transaction volume growth.[20] Global losses from payment card fraud are projected to reach $400 billion over the next ten years, with authorized push payment fraud alone expected to grow 11 percent a year from 2023 to 2027.[21] Scams are being perpetrated via phone, text, email, and apps and enabled and amplified by generative AI, which can facilitate the automated generation of mass personalized content. This trend is all the more concerning, given that our analysis suggests real-time payments could grow to more than $60 trillion by 2029.

Customers expect banks to protect them and to reimburse them when fraud occurs, even if they authorized the transaction. More than half of US and UK customers believe their banks should reimburse them following a scam or third-party fraud, and 77 percent would leave a bank that did not.[22] Meantime, regulators are moving to drive customer protection liability to providers. The UK Payment Systems Regulator has established guidance for extending liability from consumers' financial institutions and receiving institutions. A rule scheduled to go into effect in October 2024 will require senders and receivers to split the cost of reimbursing consumers (which previously resided with senders) who are scammed on peer-to-peer platforms.[23] There is also increasing pressure on operators in the United States, where a July 2024 government report detailed significant risks to consumers from fraud and scams on Zelle and recommended legislative changes.[24]

Regulators are also increasing pressure on banks and other payments players to fight money laundering. Recently, regulators in the United States and Europe issued fines for lapses in AML controls.[25] With the upsurge in financial sanctions by the US Treasury and other governments, including as an instrument of foreign policy,[26] the task facing banks and other payments players is getting more challenging.

Payments players are making significant investments to prevent financial crime, but these measures are hindering the long-standing promise of cheaper, seamless payments, causing friction in user experiences and increasing costs through lost sales. Two-thirds of declined consumer sales are false positives, and companies can lose customers when legitimate transactions are denied over fraud concerns.

To prepare for the future, players will likely need to invest in complying with emerging regulations for real-time or near-real-time fraud detection and prevention, including payee verification and AML systems that screen customers for sanctions. Payment leaders can also upgrade customer authentication methods, including step-up and voice authentication, and participate in consortia to integrate data using tools such as real-time biometrics, GPS location, and IP address. We have also seen interesting experiments

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[20] James Melton, "E-commerce fraud rose nearly twice as fast as e-commerce sales in 2017," *Digital Commerce 360,* April 24, 2018.
[21] "Card fraud losses worldwide," *Nilson Report,* December 2021, Number 1209; Alex Rolfe, "APP fraud losses expected to hit $6.8 billion by 2027," *Payments Cards & Mobile,* December 6, 2023; "Losses from online payment fraud to exceed $362 billion globally over next five years," Juniper Research press release, June 26, 2023.
[22] *The human impact of fraud and financial crime on customer trust in banks,* Feedzai, April 2023.
[23] Nassos Kalliris and Gavin Punia, "New rules for reimbursement on authorised push payment fraud (APP) are coming into force in the UK," Bird & Bird, June 24, 2024.
[24] *A fast and easy way to lose money: Insufficient consumer protection on the Zelle Network,* US Senate Permanent Subcommittee on Investigations, July 23, 2024.
[25] "The biggest AML fines in 2023," ComplyAdvantage, May 13, 2024.
[26] "Basic information on OFAC and sanctions," US Department of the Treasury Office of Foreign Assets Control, August 21, 2024.

with AI trained on transaction data and users' financial and social data to better detect fraud and money laundering with fewer false positives.

The industry can also combat fraud by educating customers to be their own first line of defense—for instance, by leveraging learning from phishing attempts and including fraud detection best practices in customer service agents' scripts.

Providers may need to focus more on fraud detection and customer protection upfront, designing and building rules and capabilities into new solutions. And they might have to delay some rollouts and their associated revenues. Given the potential costs of fraud, the business case for such delays is likely positive.

Investing in the next generation of payments infrastructure and technology

Regulators are intensifying their demands for faster, more efficient payment processes that maintain low costs for consumers and businesses. In addition to accounting for the evolving customer preference for a seamless experience, the continuous appearance of new payment methods, and the need to strengthen fraud prevention, companies will need to invest in robust, real-time infrastructure and technology to remain compliant and competitive.

Instant payments will require clearing and settlement infrastructures that can operate at high volumes and enable reconciliations, dispute resolutions, and refunds in real time. They will also need features such as 24/7/365 availability and enhanced fraud prevention, including daily customer screening and AI.

The need for real-time capabilities extends beyond payments infrastructure to most other technological and operational components. For example, updates to customer accounts and products will need to be timely, as will the execution and reporting of instant payments to enable liquidity management. Players will want to ensure that their entire business architecture is ready to support a transition to instant payments and rethink whether to maintain on-premises infrastructure or move to the cloud.

However, the path to tech modernization is fraught with financial challenges. Many banks and payment service providers are saddled with systems they developed decades ago. Transformation programs often have extended payback periods, and as transaction fees decline, the ability to recoup the costs associated with upgrading systems diminishes. But new entrants can sometimes establish payment operations in weeks, and incumbents that don't modernize run the risk of being outpaced by them and losing market share and relevance.

Regulators are intensifying their demands for faster, more efficient payment processes that maintain low costs for consumers and businesses.

Incumbents can mimic the speed and agility of disrupters with client-backed approaches. Goldman Sachs launched its US transaction banking service in 2020 after only two years of development[27] and is now rolling it out internationally. RBC followed with its transaction banking business, RBC Clear, in April 2024. Its success depended on developing customized transaction banking solutions to meet the specific needs of various client segments and a user-friendly digital experience for its transaction banking clients. It also established and leveraged strategic partnerships with fintechs and technology providers to accelerate development and with other financial institutions to expand its reach and product offerings.

Much still to do, but the goal is in sight

Despite the complexity and enormous volume of work ahead, there is light at the end of the tunnel.

We expect that increasing system complexity and regulatory pressure will fuel three trends that will characterize the future payments landscape. First, there will be increased market consolidation as players seek to drive down costs through economies of scale and replace expensive payment rails like wires and checks with more efficient digitized payment methods. Second, the orchestration of payments will increase as players try to capture merchant and customer relationships while shielding users from complexity. And third, we will see more regulatory action to reduce costs and financial crime while increasing consumer protections and reliability.

Global payments are not yet ubiquitously safe, simple, quick, and cheap. But the industry is making progress on many fronts at once.

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The authors wish to thank Aaron Caraher, Abhishek Singhal, Albion Murati, Alessio Botta, Andy Dresner, Aparna Tekriwal, Ayush Shankar, Bella Said, Bharath Sattanathan, Ethan Nadeau, Gleb Alekseev, Hamza Arshad, Ishanaa Rambachan, Marie-Claude Nadeau, S. Arunima, Saurish Basu, Shubham Gupta, Sid Tiwari, Sukriti Bansal, Shwaitang Singh, and Tommaso Canzian for their contributions to this article.

[27] "Goldman Sachs launches transaction banking in the UK," Goldman Sachs press release, June 21, 2021; Gareth Gore and Steve Slater, "Goldman to ramp up transaction banking to 36 countries," *International Financing Review*, February 18, 2022.

McKinsey Global Banking Practice
October 2024

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