Just the Facts: Global Payments Innovation

The Financial Technology Association (FTA) is a nonprofit trade organization that educates consumers, regulators, policymakers, and industry stakeholders on the value of technology-centered financial services and advocates for the modernization of financial regulation to support inclusion and innovation. The FTA's "Just the Facts" series aims to inform financial technology policy discussions in order to safeguard consumers and advance the development of trusted, digital financial markets and services.

By leveraging internet and mobile technologies, fintech innovators offer consumers new payment and money transfer options that significantly reduce costs, speed access to funds, improve transparency and convenience, and enhance financial inclusion.

- Fintech payments innovation dramatically reduces the cost consumers, and small business merchants pay for a range of payment services, including those that cut across borders where legacy services can charge more than 20% of the transaction in fees.
- New payments models further speed access to funds, improve cash flow, reduce overdraft fees, and offer easy mobile access and onramps into the financial system for previously un- and under-banked individuals.
- Payments innovators are also partnering with traditional banks and consumer-facing businesses to advance "embedded finance" or "banking as a service" payments models that leverage API-based connectivity and open banking frameworks; these solutions provide consumers with low-cost and compliant financial services products without the business partner bearing the cost or complexity of building unique payments infrastructure.
- Fintech payments companies are also improving pricing transparency for consumers. A UK government-backed research organization has found that consumers and small businesses are often unaware of exchange rate markups and are significantly more likely to choose the best option when total costs are disclosed. The Australian Government has added that consumers should have access to digital tools that enable them to see the entire composition of cross-border payments fees.

A broad range of consumers and small businesses use digital payments solutions to reduce costs and increase convenience.

- Digital innovation in financial services provides mobile and internet-based payments solutions that can satisfy a range of financial needs.
  - Consumers utilize fintech payments services to send peer-to-peer money transfers at no cost, buy goods and services, make investments, and send money to individuals in foreign countries at low cost (typically much less than the cost of sending a wire).
  - Small businesses rely on fintech payments solutions to create e-commerce payment capabilities, receive and send funds globally, track and manage company spend, and analyze business performance.
  - Some recent payments innovation also leverages token and digital ledger technology, allowing transactions to occur on potentially more efficient and less expensive new payments rails.

- Payments applications range from mobile wallets, peer-to-peer (P2P) transfers, virtual or contactless cards, and digital exchange platforms. The benefits for consumers and businesses are myriad, including, for example:
  - Faster payments, including push to card options, allow businesses to pay employees quickly and manage expenses. These same platforms also provide tools for protecting against fraud and providing spend analytics.
  - Online and mobile checkouts have provided safe and seamless experiences for consumers to purchase everything from groceries to cars throughout the pandemic. These efficiencies will remain long after the COVID pandemic has passed.

In the United States, payments companies are subject to state licensure, registration with FinCEN, and federal financial KYC and AML/CFT requirements, but unlike other jurisdictions, they do not have direct access to accounts and payment services at the Federal Reserve.

- In the U.S., payments companies are licensed under state money transmission frameworks, are subject to Bank Secrecy Act (BSA) requirements, and are subject to Regulation E for electronic fund transfers.
- Many foreign jurisdictions have taken affirmative steps to improve and modernize their payments systems to foster innovation and competition, but payments companies in the U.S. lack the ability to participate in central bank run payment networks directly.
- There remains the need for further clarity and support in the U.S. regarding the ability of payments companies that secure certain bank charters, including uninsured depositories at the state and federal levels, to access the Fed's payment system; a recent request for information from the Federal Reserve Board is focused on this issue.

Many forward-leaning global jurisdictions have streamlined and modernized licensing regimes and expanded access to central bank payment systems, thereby driving competition, lower costs, faster settlement speeds, and improved consumer outcomes.

- Regulatory and payments model modernization is occurring across the globe with critical themes including updated licensure regimes to increase access for new entrants and development of fit-for-purpose consumer safeguards to mitigate evolving risks.
- In 2018, the UK began allowing non-bank payment companies to directly access its Faster Payments Scheme and obtain a settlement account at the Bank of England. The EU, Canada, Singapore, Japan, and Australia are all launching or announcing similar initiatives that contemplate expanded fintech participation.
- The Financial Stability Board's (FSB) Committee on Payments and Market Infrastructures (CPMI) recently recommended direct access for non-bank payment companies to help make cross-border payments more accessible and affordable.
- Allowing fintech payment companies to have direct access to central bank accounts and services eliminates intermediary fees, a savings which can be passed onto consumers. Expanding access also reduces payment system concentration risk; in the U.S., just two banks generate nearly half of all ACH payments.