



TNP

HARNESS THE UNPREDICTABLE


POSITION PAPER

FROM INSTANT PAYMENTS TO DIGITAL CURRENCIES : THE FUTURE OF FINANCIAL TRANSACTIONS

INSIGHTS FROM THE DUBAI FINTECH SUMMIT 2024








Have you ever wondered how your everyday transactions, such as paying for your morning coffee, interest the tech industry?

The payments sector is experiencing a rapid transformation catalyzed by the adoption of advanced technologies and changing demands from both consumers and businesses. This evolution is particularly significant within corporate and investment banking (CIB) where the introduction of innovative solutions aims to enhance efficiency, security, and transaction speed. Central to these developments is the challenge of achieving interoperability among diverse payment systems, which is essential for ensuring seamless integration across financial platforms and geographic borders.



TECHNOLOGICAL EVOLUTION OF PAYMENTS SYSTEMS

INSTANT PAYMENTS : SWIFT GPI

A major innovation in international payments is the SWIFT GPI (Global Payments Innovation) service, which enables almost instantaneous cross-border payments with complete transparency on fees and real-time tracking. Banks such as HSBC and JPMorgan Chase have adopted it to offer faster and more transparent payments to their corporate clients.

DIGITAL CURRENCIES : CBDC PROJECTS

The development of central bank digital currencies (CBDCs) is crucial for CIBs as they promise to revolutionize money markets. For example, the Bank of France has tested the use of a CBDC for issuing euro-denominated bonds in collaboration with Société Générale, utilizing blockchain to secure and automate the process. But central banks might also consider the environmental impact of operating digital currency networks, especially given the criticism some cryptocurrencies face over energy consumption. Developing energy-efficient consensus mechanisms and leveraging green technologies could be a focus to promote sustainability.

Banque de France unveils the potential of wholesale CBDC



IMPACT OF BLOCKCHAIN AND CRYPTO- CURRENCIES

BLOCKCHAIN IN LOAN SYNDICATION : FINASTRA

The fintech Finastra uses blockchain to transform loan syndication, allowing banks to reduce transaction costs and speed up the settlement process. It automates various steps in the syndication process, such as agreement verification and compliance checks. This technology also enables better traceability and operational risk reduction.

STABLECOINS FOR PAYMENTS : CIRCLE'S USDC

Stablecoins like Circle's USDC are utilized by CIBs to conduct secured and instantaneous payments in a stable digital currency, effectively mitigating the volatility risks often associated with traditional cryptocurrencies, thereby enhancing the security

and efficiency of global trade operations. A practical example of USDC in action is in trade finance transactions where banks use USDC to quickly settle cross-border payments for clients involved in international trade. This use of USDC not only speeds up transactions but also ensures transparency, reduces transaction fees, and avoids currency fluctuation risks, thereby enhancing the security and efficiency of global trade operations.

CRYPTOCURRENCY REGULATION : MICA IN EUROPE

The EU's MiCA (Markets in Crypto-Assets) framework aims to standardize the regulation of cryptocurrencies across Europe, affecting how CIBs can use these assets for payments and financing. This regulation seeks to establish legal clarity, increase consumer protection, and promote innovation while mitigating the risks of fraud and money laundering. Société Générale has actively utilized blockchain technology, notably issuing bonds as security tokens on the Ethereum blockchain, showcasing its commitment to integrating digital innovations in traditional banking practices. Similarly, BBVA has launched a bitcoin trading and custody service in Switzerland, directly addressing the growing demand among its clients for cryptocurrency investments.

INNOVATION IN PAYMENT METHODS

ANT FINANCIAL

Ant Financial (Alibaba Group) offers advanced B2B mobile payment solutions that significantly enhance international commercial transactions through increased efficiency and security. Leveraging AI for credit scoring, Ant Financial can analyze high datasets, including transaction histories and behavioral patterns, to provide accurate real-time credit assessments. This enables faster loan approvals and more personalized financial services for businesses. Also, their AI-driven fraud prevention systems continuously monitor transaction patterns to detect and prevent fraudulent activities, ensuring secure payments. The platform also integrates blockchain technology for transparent, tamper-proof contract verification and settlement, reducing the risk of disputes and enhancing trust among global trading partners.

RIPPLENET

With the development of platforms like RippleNet, which offers a global payment network using blockchain technology, CIBs can perform international payments more quickly and cheaply. RippleNet also allows easy integration with existing banking systems, thus increasing operational efficiency. Banks such as Santander and Standard Chartered have adopted RippleNet to streamline their international payment processes, significantly enhancing transaction speeds and reducing costs.

INTERCONNECTIVITY AND INTEROPERABILITY

While the importance of interoperability is acknowledged, a deeper explanation of how different platforms can interconnect effectively is beneficial. Open standards and common APIs are critical in this regard. Open Banking, for example, allows third-party developers to build applications and services around the financial institution. By adopting such standards, financial systems can communicate more effectively, ensuring seamless transactions across different platforms and geographies. This integration is not only a technical challenge but also a strategic imperative to enhance global financial connectivity.

ECONOMIC AND FINANCIAL IMPLICATIONS

COST STRUCTURE AND PRICING

Technological innovations in payments significantly influence the cost structure and pricing strategies within banks. Automated processes and blockchain technology reduce transaction costs and enhance efficiency, allowing banks to offer more competitive pricing. Additionally, technologies like AI and machine learning enable more accurate risk assessments and fraud detection, further reducing operational costs.

COMPETITIVENESS

The adoption of these technologies also impacts the competitiveness of banks. Those who effectively integrate and utilize advanced technologies can offer superior services, attracting more clients and gaining a competitive edge. For instance, real-time payments and transparent transaction processes can enhance client satisfaction and loyalty, driving business growth.





IMPACT ON CLIENTS

ENHANCING CUSTOMER EXPERIENCE

Innovations in payment technologies significantly improve the customer experience in CIB. Personalization of financial services, facilitated by AI and data analytics, allows banks to offer tailored solutions that meet specific client needs. Enhanced access to capital through quicker and more efficient transaction processes also benefits clients.

ACCESS TO CAPITAL

By leveraging technologies like blockchain and stablecoins, banks can facilitate faster and more secure access to capital for their clients. This is particularly beneficial for businesses involved in international trade, where quick and reliable access to funds is crucial.

FUTURE PERSPECTIVES

TRENDS AND CHALLENGES

Looking ahead, several trends are likely to shape the future of payments in CIB. The integration of AI and blockchain continues to present both opportunities and challenges. While AI can offer unprecedented insights and automation, the rapid evolution of technology necessitates continuous adaptation and learning. Similarly, while blockchain promises enhanced security and transparency, its adoption has been slower than anticipated, with regulatory and scalability issues posing significant hurdles.

EMERGING TECHNOLOGIES

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Innovations in the payment domain are profoundly transforming corporate and investment banks, offering opportunities to improve the speed, security, and efficiency of transactions. To remain competitive, CIBs must not only adopt these advanced technologies but also effectively address the challenges of adoption and interoperability. By doing so, they can provide tangible benefits to merchants and end consumers, ultimately enhancing their market position.

ABOUT TNP

Founded in 2007, TNP Consultants is a European consultancy dedicated to senior management, specializing in high-stakes strategic transformations.

A hybrid and independent entity, TNP focuses its expertise on three core areas: strategy and operational excellence; sustainable, financial, risk and regulatory transformation; and digital transformation, coupled with business solutions.

TNP focuses on operational strategy, information systems, business and human capital in the banking, insurance, transport, energy, automotive and public sectors. Specializing in the definition and implementation of transformation programs, TNP has made accelerating its customers' performance its DNA.

Its teams are now present in three geographical zones: Continental Europe (France, Luxembourg, Italy, Switzerland, Germany, Monaco), Africa (Morocco, Ivory Coast, Tunisia), India and the Middle East (United Arab Emirates).

LET'S HARNESS THE UNPREDICTABLE

Since 2007, TNP's mission has been to support hundreds of companies, governmental organizations, and investment funds by confidently guiding their business and digital transformations and crafting robust strategies for controlled technological evolution, fostering trust every step of the way.

We transform each disruptive element into dynamics beneficial to our clients, providing high-value and high-impact consulting on their activities.

Our three business lines reflect our ongoing commitment to providing clients with a comprehensive offering. We embrace the challenges of today and tomorrow, from strategy to data, within an always secure and reliable framework.



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