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COMPETITION OR CONVERGENCE?
MAPPING A NEW ERA FOR GLOBAL PAYMENTS

September 2024

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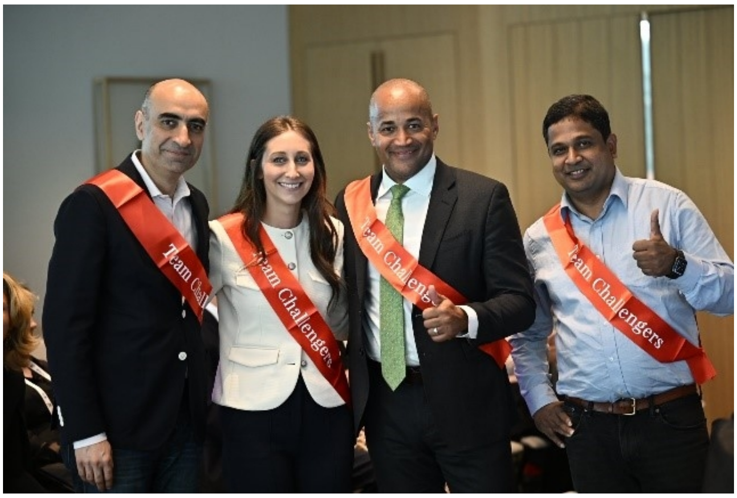
Executive summary

1. As cross-border payment flows top $150 trillion annually, veteran and challenger financial institutions are both competing and collaborating to better serve the market.
2. While legacy financial infrastructure has achieved impressive scale and reliability, its patchwork of third-party processors, services, and networks impose costs, delays, and inefficiencies that limit interoperability and financial inclusion.
3. Money that is fit for purpose in the always-on global economy should be device-centric and internet-native. This means enhancing the rails on which money can travel and shifting from siloed spreadsheets, message passing, and manual reconciliation to the blockchain. The rapid rise of tokenized cash – in the form of payment stablecoins – reflects a fundamental upgrade that gives fiat currency the powers of the internet.
4. Powered by deep connections with the banking system, tokenized cash can drive the next evolution of global payments. Firms of various types are exploring ways to drive cross-border efficiencies and extend financial access to the world's 1.4 billion unbanked. These efforts will accelerate as regulatory clarity emerges and the demand for financial interoperability rises.

Introduction

Cross-border payments are the flywheel of the global economy, representing over $150 trillion in annual volume, according to a McKinsey report.

At the 2024 Point Zero Forum in Zurich, Switzerland, leading figures from banking, fintech, payments, and e-commerce gathered to unpack the evolution of cross-border payments. Though formally divided into "Veteran" and "Challenger" teams, the debate quickly confirmed significant agreement on issues ranging from access to financial services to KYC/AML enforcement. Both teams see a pressing need to complete unfinished work in the global financial system to make it faster, cheaper, and more inclusive.



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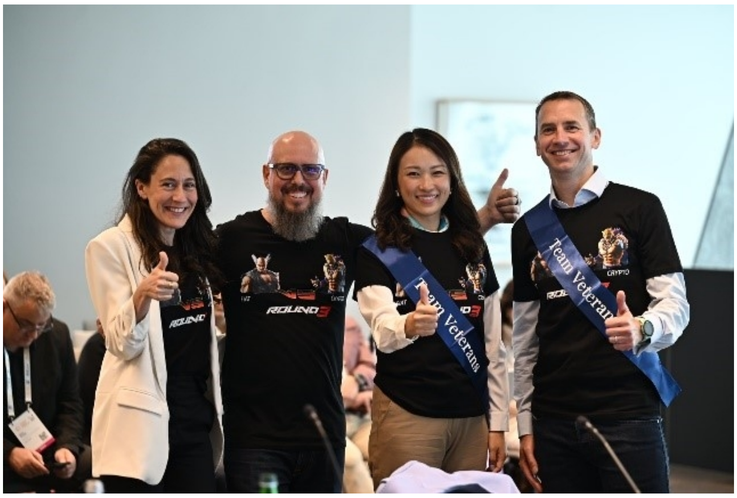

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Far from being a zero-sum, winner-take-all war over standards, participants agreed that existing payment systems can be meaningfully modernised by integrating tools offered by challenger firms, including blockchain. And they share the view that improvements in settlement should be built on top of – not in place of – critically important traditional banking rails.

What might this emerging era of convergence look like? How would it transform cross-border payments? And how quickly might it scale? This paper explores these and related questions.

Cross-border payments today

The status quo is ripe for upgrades.

The same point-of-sale consumer payment can represent both painful interchange fees for a merchant and rewarding points for a consumer. The convenience offered by today's merchant payment giants can also be seen as the flipside of a duopoly.

What is undeniable is that modern global commerce would be difficult to imagine without the battle-tested infrastructure we rely on today. SWIFT alone handles over 40 million messages a day[1]. Visa and Mastercard, meanwhile, collectively process over $70 billion in transactions daily.

Look closer, though, and gaps appear. 1.4 billion adults are still unbanked.

Payments can take days to settle and incur embedded costs from the frictions inherent in moving value across incompatible legacy systems and walled gardens.

Do we really want our modern payments infrastructure held together by a patchwork of technology and messaging instructions, and a network of third parties that add costs every step of the way?

1 Source: https://www.swift.com/about-us/discover-swift/fin-traffic-figures

“We can no longer operate a system in which the privileged have all kinds of access and the underprivileged do not.”

Modernising this system begins with the embrace of novel technologies that add on to the existing system, making it possible to deliver faster, cheaper payments that can reach anyone with an internet connection.

It is in everybody's interest to work toward a better, more inclusive system.

Modernising payments with tokenization

The 2023 McKinsey Global Payments Report suggests that the payments industry is on the cusp of a new, decoupled era. “The Decoupled Era is also shaping up to be even more reliant on technology—but with the winning technologies yet to be determined,” the report notes. Among the contenders are “decentralised and highly interoperable technologies such as tokenization, further reducing the need for a central agent.”

Tokenization, which refers to the process of representing assets on the internet via blockchain, could reach $30 trillion in the next decade by some estimates. Notably, it is not just digital asset firms that are pushing this approach. Major banking institutions are also actively considering ways that the blockchain can drive needed upgrades.

This past May, at the Bank for International Settlements innovation summit in Basel, Switzerland, BIS General Manager Agustín Carstens opened the meeting with a call for a “giant leap forward” in financial interconnected-ness through the formation of a “finternet”.

> ***“Financial services must catch up with the advances made in communications since the advent of the internet and smartphones,” Carstens wrote in a related piece for Project Syndicate. “That will require taking bold action to build a seamless, interconnected network that would give all individuals and businesses full control over their financial lives.”***

Circle's Chief Strategy Officer and Head of Global Policy, Dante Disparte, applauds this ambition and sees today's permissionless, blockchain-based financial services as the ideal medium for reaching this future. To accelerate blockchain adoption into the mainstream, we must first broaden the definition of what it means to be a bank. Where does the “fin” end and the “tech” begin? Second, we must responsibly question the sharp limits in place that keep banks from using open technologies, which could drive faster settlements and greater cyber resilience. Third, and most importantly, we must mend the often testy relationship between banks and non-banks who are pursuing shared goals of expanding the perimeter of financial services.

Stablecoins: The beating heart of a new paradigm

At Point Zero Forum, those shared goals were front and center. Tokenized cash — digital representations of fiat currencies that live on the blockchain — is emerging as a solution.

Though it is too early to predict the exact path of the coming tokenization wave, tokenized cash is already here. For proof, look no further than the growth of stablecoins into a $160 billion market. While most stablecoin use today takes place in digital asset markets, many businesses are recognising their potential for greater utility in mainstream commercial payments.

The rise of stablecoins suggests that tokenization is not a trend so much as an evolution. As noted in a recent [OMFIF Journal article]:

> ***"Stablecoins are blockchain-native representations of government obligations – essentially tokenized cash. They equip traditional fiat currencies with the cost, speed, and scale advantages of the internet so that it's possible to send stable value in the same fashion as other forms of internet data – across borders, almost instantly and at miniscule cost."***

Most tokenized cash today is linked to the US dollar, given its centrality in global finance. There is growing interest in dollar stablecoins like Circle's USDC as a way for businesses and individuals outside the US to access dollars and transact across borders.

Strong regulatory frameworks are emerging, led by the Markets in Crypto-Assets (MiCA) in Europe and several financial hubs in Asia, which could help catalyse more people and businesses around the world to begin using stablecoins for mainstream payments.

As the Point Zero Forum participants can attest, collaboration among veteran and challenger firms will be key to delivering the benefits of blockchain for mainstream use cases.

The European Economic Area, Japan, and the United Arab Emirates are among the markets that have enacted payment stablecoin regulations. The US, along with more markets in Asia and Latin America, could pass similar regulations in the near term.

Both existing and proposed regulations share considerable common ground when it comes to stablecoin reserves, which should hold only assets denominated in the same currency as the reference currency. Ready access to the underlying fiat through traditional financial intermediaries is critical to maintaining a stablecoin's stability.

Point Zero Forum participants are well versed in this mutual dependency – banks and stablecoins need each other to move finance forward. Stablecoin issuers need banks to provide infrastructure; concurrently, more banks are recognising that stablecoins can represent both a new product offering and new customers who have historically lacked access to their services.

Competition, collaboration, or both?

Veterans and challengers at the Point Zero Forum are poised to build upon this interdependency to unlock a better financial future. We are in the early days of seeing how powerful this collaboration can be.

For now, stablecoins serve as the pathway to pursuing opportunities in the blockchain-based economy. In 2023, as Circle deepened its connectivity to strong global banks, it cemented its status as the premier bridge between the blockchain and traditional finance. Circle minted and burned $197 billion in USDC in 2023, underscoring its ability to redeem it 1:1 for US dollars at any time. This connectivity is the foundation of tomorrow's mainstream payments use cases.

Here is a look at several potential near-term opportunities:

Supplier payments: Dollar stablecoins can be attractive to global suppliers, because they can help accelerate payment receipt by multiple days in some instances. Speeding cash conversion can reduce suppliers' need to use credit to fund daily working capital at a time of elevated interest rates.

Remittances: Funds sent home by friends and family represent a critical financial lifeline for around 800 million people. But traditional remittance channels are slow and expensive, costing an average of 6% of the face value in some cases. Stablecoins can reduce what amounts to a hidden tax on recipients in developing markets who can least afford it, and can settle in minutes instead of days.

Humanitarian aid: Prominent humanitarian groups are already using stablecoins to disburse aid to vulnerable populations, including war refugees and people living under oppressive political regimes. As with some remittance recipients, many humanitarian aid beneficiaries cannot access the banking system. Blockchain technology, by contrast, delivers the internet's reach and provides more transparency than traditional aid channels.

Beyond the speed, scale, and cost advantages of blockchain networks for existing payments use cases, there are several other aspects that make it tomorrow's world of value transfer. Stablecoins on smart contract enabled blockchains can be easily programmed to transfer value based on preset “if/then” parameters. This can help uplevel “digital transformation” initiatives underway across the banking sector – and among the finance teams at the companies they serve – unleashing significant process and cost efficiencies.

Second, blockchain's programmability also means that stablecoins can be configured to serve as an interoperability layer that rectifies a significant gap in today's financial system. This could be especially compelling as other forms of tokenized value emerge that will need neutral, interoperable infrastructure to settle across networks and institutions.

> ***“We're coming to a point where stablecoins are too big to ignore, and they represent an opportunity for financial institutions to partner and leverage these technologies. Because they can bring them to scale better than anyone else.”***

In addition to veteran-challenger collaboration, unlocking this frictionless, interoperable future will require a healthy dose of competition. To reach a better state of ubiquitous, universally available payments and money that serves businesses and merchants and people, competition that is principled and tech neutral must be allowed to flourish. It will take a willingness to embrace change and experiment – and to let the market choose.

While this "collaboration/competition" path may seem daunting, recent history paints a positive picture of how this evolution could unfold in the coming years.

Public cloud adoption could point the way

As recently as twenty years ago, most Fortune 500 businesses – and certainly most major financial institutions – maintained their own data centers. The idea of entrusting their vital information to "the cloud" was a stretch.

Today, nearly every major business – 94% of the Fortune 500 – relies on public cloud-based infrastructure for core business operations. In 2015, just 30% of corporate data was stored in the public cloud. By 2022, that figure had doubled to 60%.

What changed? The public cloud's superiority in cost, accessibility, scalability, and efficiency – not to mention security and resilience – became undeniable. Just as consumers a century ago learned to move their money from their mattress to a bank account, businesses embraced the value of storing and operating their data via cloud infrastructure.

Are we on the cusp of a similar transformation in the movement of money?

Traditional financial rails were developed decades ago. Direct internet settlement on the blockchain is emerging as a faster, cheaper alternative. Though transaction fees vary, cross-border flows using blockchain rails can cost less than a penny.

While early, the adoption cycle is real, according to the Visa Onchain Analytics Dashboard. Here is some data about stablecoin usage from 1 to 31 July 2024.

$1.3T
Total transaction volume
331.6M
Number of transactions
27.9M
Monthly active users (MAU)
149.9B
Average supply

While public cloud adoption could prove useful as a historical parallel for blockchain and stablecoins, there are additional layers that connect them. In fact, the public cloud is what makes blockchain possible. Google, Amazon and Microsoft are all investing in blockchain through their cloud divisions.

Blockchain data largely lives within the same public cloud infrastructure as other enterprise data. It is not a stretch to see it delivering the benefits of the public cloud to the world of finance.

Conclusion

We are very early in what could be a profound transformation in how value is transferred across the world. Stablecoins on the blockchain have already emerged as a potential pillar of this new paradigm, making it possible to send dollars and other fiat currencies around the world at internet speed, scale and costs.

Corporate, merchant, and individual flows can all benefit from this transformation, with early opportunities focused on payments to people who can least afford to bear the costs and friction of traditional settlement. Frequently, people in these circumstances are unable to access traditional financial services. Blockchain can help address this, since it can reach nearly anyone with an internet connection.

Unlocking a better payment system for everyone will require both collaboration and competition. As this year's Point Zero Forum showed, we are well on the way.

Acknowledgments

We're grateful to our partners and colleagues at Elevandi for organising this important series of conversations. We hope this publication contributes to its mission of fostering international collaborations on technology innovation, application, and adoption in financial services.

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