

Digital payments innovation: trends to watch for 2021

First came pioneering PayPal, but innovation in the payments sector has never stood still and today many fintechs compete with and win market share from traditional financial institutions in this area.

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At the start of 2021, it seems natural to reflect on the dramatic events of 2020 and the impact the pandemic has had and is continuing to have on the fintech payments sector. In general it would be fair to say that despite the disruption and extreme volatility that has characterised much of the last 10 months, fintech has had something of a 'good war'. Indeed, as far back as September, Forbes was already proclaiming the rise of a new breed of fintech billionaires based on the headwinds the sector was enjoying following the enforced mass adoption of online ways of working.

Within the fintech universe, it was yet again the payments innovators who saw the most spectacular gains, both in absolute terms but most importantly in terms of the gulf that is starting to open up between fintech payment processors and their traditional competitors.

With the rolling on/off cycle of lockdowns and various national restrictions further turbocharging e-commerce, the question arises of whether payments processing is an area where fintechs have are actually succeeding in displacing incumbents? Or could a gradual return to normality in 2021 reverse the gains made by digital payment fintechs over the past year?

As the table below shows, the 'scorecard' from 2020 skews dramatically in favour of fintech innovators versus more traditional providers. San Francisco-based mobile payments fintech Square saw by far the best YTD returns, closely followed by Latin American e-commerce disruptor MercadoLibre. Meanwhile incumbent payment giants, Visa, Mastercard, and Western Union are all to be found way down the list, and all comparing unfavourably to the index average return of nearly 48%.

In fact Western Union's share price actually declined nearly 16% despite the explosion of online activity seen in 2020. Although they would doubtless point to the collapse in international remittances over the time period considered, this factor along doesn't tell the whole story.



To answer the question of whether the fintech payment disruptors can consolidate and expand on their hard-fought gains from 2020, a look at how fintechs are currently innovating in digital payments is necessary.

Meet the UK Payment Disruptors: SumUp and Primer

Within the UK fintech sector, there have been several star performers for 2020 who were able to capitalise on the trend for the accelerated adoption of digital processes.

The initial payments revolution was led by Californian companies like PayPal that followed on the coat-tails of the dotcom bubble. Whilst the deflating of this bubble was undoubtedly destructive, the companies that survived the first wave of online investment euphoria emerged with the resilience required to scale-up their operations and grow at a previously unprecedented pace. PayPal found a unique role within this new commercial ecosystem by providing electronic payment solutions for these new e-commerce firms who were in need of mechanisms to receive payments digitally.

As such, it is interesting that London-based payment processor startup SumUp is now seeking to apply the lessons learnt and disseminated by PayPal to innovate the payments systems used by 'bricks-and-mortar' retail. Essentially Sum-up has developed a payment processing system that allows sellers to process payments using smart devices. Payments can be processed either through a payment link sent to the customer's mobile device or through an attachable card reader. The simplicity of the tech, as well as the absence of fixed monthly fees, makes the set-up attractive to small businesses, and Sum-up can boast a rapidly growing customer base of SME entrepreneurs.

However, champion of SME payment processing is only one part of the SumUp story; they are equally proficient at partnering with MNCs, both financial and manufacturing. SumUp recently announced a groundbreaking partnership with Ford and Mastercard to allow SumUp's mobile payment tech to be installed into Ford commercial vehicles across

the United Kingdom, Germany, France, Spain and Italy. This would allow businesses to take payments immediately upon delivery, thus easing cashflow, and reducing the admin burden by eliminating the need for invoices. It also gives smaller businesses the ability to accept card payments, rather than cash. As such, 2021 already looks set to be another bright year for SumUp, and the optimism with which the collaboration was launched late in 2020 seems well-founded.

A second example of UK payments innovation is Primer, the London-based startup with the objective of revolutionising the back-end of payments processing. Founded by a pair of ex-PayPal senior executives, Primer is promising to help sellers quickly integrate an ever-growing range of payment options in different markets, ensuring a smooth checkout process for customers regardless of location or currency, as well as including sophisticated data driven insights. As such, they have their eye firmly on large-scale retail operations whose suppliers and customers often span various geographical and monetary zones. Primer claim they can achieve this goal more efficiently than currently available solutions by consolidating all of the various pieces of technology required to allow payments across different methods and geographies into a single system, with analytics, anti-fraud and compliance controls all included in what would be a literal one-stop payments shop. Primer ended 2020 by securing £14M in Series A funding led by Accel and have ambitious plans to scale up their system in 2021.

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Both SumUp and Primer provide ample evidence that fintech has had an undeniably strong 2020, and few would bet on the sector's momentum reversing in 2021. As such, it seems safe to make the prediction that fintech payments innovators will continue to outperform their traditional rivals in 2021.

New technology itself, just as much as changes in the way people use existing technology, will continue to transform the payments landscape in 2021. Cash will slip ever further away from the foreground of commerce, and this is where fintech's advantage over traditional financial institutions will be felt keenest. The competition from new digital entrants will spur traditional institutions on to accelerate the modernisation of their services, and the increased participation of a wider variety of enterprises will ultimately be in the best interest of consumers and firms alike.

The ongoing pandemic has already forced everyone to reevaluate long accepted business models, and the winners in the payments field will continue to be those firms who are fleet-footed enough to take advantage of the deluge of digital opportunities 2021 promises to bring. As always, those who are quickest to master the application of technology to pre-existing problems will be the winners in the shifting payments landscape which began with PayPal and still has so much further to evolve.

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