https://www.barbican.org.uk/whats-on/2022/event/soheila-sokhanvari-rebel-rebel

https://www.finextra.com/blogposting/23518/will-payment-service-providers-psp-prosper-going-forward

Will Payment Service Providers (PSP) prosper going forward?
As domestic payment fees 'go towards zero', how will PSP make any monies from the payments business, especially if the PSP is a non-bank[A] and is OpenBanking an opportunity or challenge to PSPs?

Taking a look at the PSP market size in the UK in 2022 was £11billion ($13Billon), 20,000 employees and 2,000 PSP[A] companies. The leaders: Worldpay, PayPal and Barclays. The number of new PSPs being established only increased 2% year on year suggesting a maturing of the market.

Faster Payment volumes in the UK continue to increase in the UK. The latest figures show Q3 2022 one billion payments made which is up 14% over Q3 2021. The EU in 2023 is issuing a directive [B] mandating the use of faster payments more across Europe. Currently only 11% of euro payments are instant making the EU an ideal market for PSPs.

Today PSPs are paid through the "merchant fee". Parties in this complex, processing payment chain taking a percentage of the merchant fee for their activity. Merchant fees are typically around 3 to 4%[C]but vary greatly by type of business e.g. lower rates for supermarkets and much higher amounts for gaming.

QR codes[D] accepting faster payments are being used by charities. Here donations, using a card or app, can scan the QR code and make a payment from a bank account. In the UK donations from 10p to £20,000 are accepted and the charity pays a small charge, usually under 0.5%, to the PSP: similar to the merchant model.

The PSP unique selling points are:

- Instant payments in milliseconds
- High acceptance rates – very few payment transaction fail
- New 'Pay by Bank' along side the existing 'Pay by Card'
- APIs linking computers become standard
- Merchant can conduct website business immediately and often at lower cost

Domestic Payments where the move to zero fees is strong

On domestic payments, e.g. GBP to GBP, regulations often prohibit charging a payment transaction fee. In the UK for example, consumers are often not charged a fee for an Authorised Push Payment (APP) while business customers are.

International Faster Payments – they do cost more

The key change from domestic payments is there are two fees that come into play:

- The first occurs in the exchange rate give where a margin is added, hence the buy and sell rate on offer. The exchange rate is based on what the market believes the two currencies are worth and are they increasing or degreasing in value. Margin, like the merchant's fee, goes to cover traders and PSPs fees.

- The second is often a payment transaction fee is added on and then passed through. Similar to using an ATM in another country that charge, either fixed or tied to the amount, is passed back to the user. Payment fees can range into double digits costs.

OpenBanking – opportunity or challenge?

Openbanking has been designed to be an open platform with rules that allow a Trusted Third Party to move money across the banking industry. Currently there are 4.5 million regular UK users of open banking – 3.9 million consumers and 600,000 small businesses - up from 2.8 million in December 2020.

The cost of a payment from one individual to another has no natural source of income from the merchant to cover PSPs activities. Openbanking rules are such the sender of the money, the payer, is not charged. The receiver of the money, the Payee, can be charged for the payment ranging in pennies.

Many Banks/PSPs offer packages that include a monthly account/app fee that covers all types of payments including no charge for faster payments. These packages, often in groups of three – Bronze, Silver and Gold charge monthly fees e.g. from less than £3 to £19 per month tied to an array of benefits, e.g. mobile phone insurance along side levels of financial transactions allowed.

Some Banks/PSPs offer no fees to the sender or receiver on Faster Payments if both have accounts with them. The payment becomes a ledger entry into an ewallet with no money moving. When payments leave one bank to another they are settled and cleared and the money is actually moved.

PSPs need a "merchant" to either be directly involved or peripherally as today to create a revenue stream. While Openbanking is almost free the PSPs can work with Trusted Third Parties (TTP) to offer greater value to their clients.

Thanks to PSPs the cost of payments are lower and FinTech activities, foreign exchange margins are lower than traditional banking practises. OpenBanking allows for payments from one bank account to any thousands of different bank account where there could be no merchant involvement.

By growing PSP involvement in enhancing the customer financial management experience then OpenBanking becomes an opportunity.

[A] https://www.ibisworld.com/united-kingdom/number-of-businesses/payment-service-providers/14612/

[B]https://ec.europa.eu/finance/docs/law/221026-proposal-instant-payments_en.pdf

[C] https://akurateco.com/blog/how-do-payment-processors-make-money-full-financial-model

[D]https://en.wikipedia.org/wiki/QR_code

Thanks to Shaju Nair for question taken from comment on:

https://www.finextra.com/blogposting/23475/understanding-why-we-have-non-bank-payment-providers