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## 3 Tech Trends to Watch in 2021

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Every year, we analyze and forecast many markets. As a result of this year's analysis, we can therefore discuss three important technology trends that will grow in strength in 2021.



### Growth in A2P Messaging

A2P (Application to Person) messaging refers to the sending of mobile messages from a software application, run by an enterprise, to a consumer's device. Users must opt in to receive mobile messages from applications, enabling them to interact with enterprises through a mobile network connection. The line of communication is typically one-way, with the end user seldom replying to messages. It is distinct from P2P (Person to Person) messaging, which refers to the sending of messages between individuals. P2P messaging is more conversational, with both parties sending and receiving messages.

Currently A2P messaging traffic is dominated by SMS technology, due to its ubiquity and simplicity. Juniper Research believes that, although this will continue to be the case over the next five years, the percentage of A2P traffic attributable to SMS will fall during the forecast period.

While A2P is heavily dependent on SMS, this will begin to diminish over the next five years, as emerging messaging technologies, such as RCS (Rich Communication Suite) begin to accumulate a higher percentage of traffic. This will be a direct result of increasing support from both operators and handset manufacturers. It should be noted, however, that RCS solutions will be limited to Android devices until Apple pledges support for the technology, thus enabling RCS services on iOS devices.

Juniper Research suggests that this should not discourage operators from investment in RCS technology, as RCS requires minimal investment and would enable operators to capitalize on this nascent technology.

The total number of A2P messages delivered in 2020, including A2P SMS, OTT business messages and A2P RCS, will be 2.7 billion, which indicates the size of the market.

Juniper Research forecasts that OTT (Over-the-Top) business messaging traffic will increase over the five-year forecast period, driven by three key factors:

- Enterprises becoming increasingly aware of the value of interactive, two-way client conversations
- The continuing growth of OTT application user bases
- The growth of average traffic per user. As more enterprises adopt an omnichannel approach to customer service, and subsequently aim to reach customers on the platforms they use the most, end users will have the opportunity to interact with a wider range of brands using OTT messaging channels.

Juniper Research foresees that each of these key factors will be bolstered by the COVID-19 pandemic. As the majority of enterprises were forced to shut physical locations during the height of the outbreak, these businesses were forced to digitalize rapidly. Businesses were keen to adopt messaging services as part of their customer service offering in order to relieve pressure on telephone helplines and email inboxes.

During government-enforced lockdown and social distancing measures, end users relied heavily on messaging applications, such as WhatsApp and Facebook Messenger, to communicate with brands as an alternative to customer service helplines.

Due to the fragmented nature of the OTT application market, it is important that enterprises reach end users on their preferred platforms. This will become increasingly important as the prevalence of omnichannel marketing and customer service strategies grows, and as enterprises become available to end users on a variety of different messaging platforms.

Juniper Research believes that operator revenue from SMS business traffic will reach \$50 billion in 2025, increasing from \$39.6 billion in 2020. This represents an overall growth of 26 percent, driven by the reduction in illegitimate traffic due to the implementation of SMS firewalls. There will be significant growth in 2021.

## **Instant Payments Gaining in Popularity**

Instant payments, also known as real-time payments, are having a disruptive effect on the payments market by injecting speed into transactions where speed has previously not been available. However, the changeover to instant payments schemes is not happening in a universal way and is generating many challenges of its own, such as scaling these new solutions and fraud.

The European Central Bank defines instant payments as "electronic retail payment solutions that process payments in real-time, 24 hours a day, 365 days a year, where the funds are made available immediately for use by the recipient."

Given the uncertain nature of the word 'immediate' in this example, we will set out our own definition of instant payments. Juniper Research defines an instant payments scheme as "any payments scheme where the funds are capable of being received in ten seconds or under, outside card networks." Some payments schemes will only meet this definition if certain conditions, such as anti-fraud measures, are met. However, this definition includes schemes that are capable of such speed, without necessarily meeting it with every single transaction.

Instant payments schemes tend to be updated versions of legacy payment settlement schemes created by individual payments authorities in countries. Card payments, while certainly fast, do not tend to lend themselves to the same use cases as instant payments schemes, given the requirement for the supplier to accept the card transaction, which has relatively high transaction fees.

While some schemes predate its development, instant payments solutions are generally associated with the ISO 20022 standard. This standard, first published in 2004, aims to standardize the messaging format for financial messaging between financial institutions. When adopted fully, ISO 20022 will mean far greater interoperability between international payments schemes. However, its adoption is very mixed, depending on the country market. Most payments regulators have ISO 20022 adoption roadmaps in place, but many of these have unclear timelines or significant windows until they are fully complete.

There have been significant problems in terms of ISO 20022 adoption. In May 2020, SWIFT announced an unexpected delay to full ISO 20022 implementation in Europe, from November 2021 to November 2022, which drew some criticism from banks and the European Central Bank. However, in general the movement to ISO 20022 has been positive.

The value of instant payments, where transactions are completed within ten seconds, will reach \$18 trillion in 2025, up from \$3 trillion in 2020, a growth of over 500 percent. This represents 17 percent of all B2B and consumer digital money transfer and banking payments by value in 2025. West Europe is driving innovation and will account for 38 percent of instant payment transaction value by 2025.

## **Open Banking Becoming Commonplace in Europe**

Open banking is where connections to bank accounts are made available via APIs, so other banks, account aggregators and authorized payments vendors can access account information, offer added services or initiate payments.

In 2020, open banking has made significant progress, having recently launched across much of Europe. It is starting to emerge in other markets.

Banks have begun to recognize the competitive advantage of a more open approach. Offering a superior open banking experience can be a compelling differentiator as part of a wider digital

app experience. Open banking also creates a level playing field in markets where regulatory intervention has led to open banking deployment. As all banks are required to deploy APIs in this scenario, the situation is the same and does not put any one bank at a disadvantage.

For example, in October 2015, the European Parliament adopted PSD2 (the revised Directive on Payment Services). By early 2020, major banks in the EU adopted open APIs. There have, however, been many cases of late deployments of APIs and problems with API availability.

Open banking is a major disruptive factor for banks, as it opens up account data to AISPs (Account Information Service Providers) and PISPs (Payment Initiation Service Providers), which can attempt to carve out a role in the banking area.

**AISPs:** These new vendors can access transaction data and balance information, as well as related information. This has led to the rise of vendors such as Emma, Yolt and Connected Money, which aggregate information from multiple sources to add value to the user.

**PISPs:** These new vendors can leverage open banking API connections to initiate payments directly from the bank accounts in question. This enables these players to bypass traditional payment methods, such as cards. Vendors such as American Express and PayPal have already launched solutions that take advantage of this.

Generally, the implementation of PSD2 reduces the entry barrier for new digital players and opens banks to competition, enabled by their own APIs. This allows these players to compete with existing services in fields currently offered by the banks. In the case of AISPs, it is possible that third-party applications could displace the role of the apps from incumbent players, which would dilute the bank's relationship with their users.

## Open Banking Opportunities and Challenges

As with any fundamental change to markets in the banking area, there are numerous opportunities and challenges to consider with open banking.

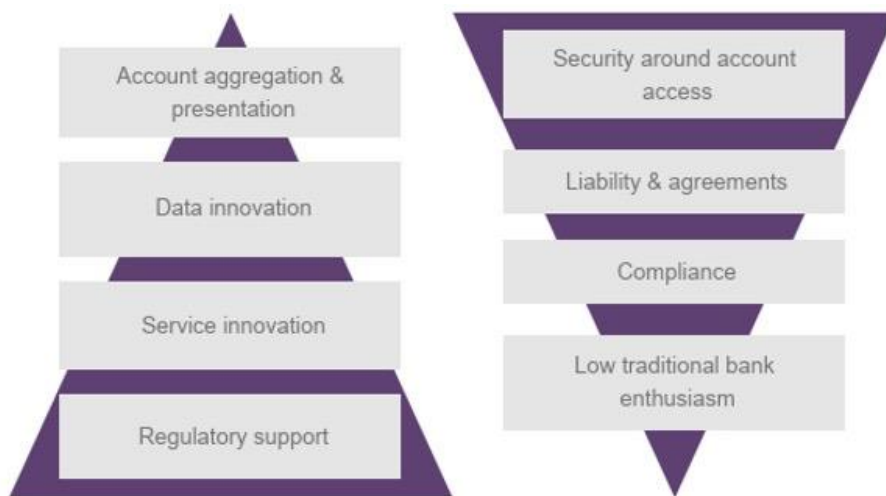


Figure 2: Open Banking Opportunities and Challenges

Banks and other parties seeking to become involved in the open banking ecosystem must weigh these opportunities and challenges carefully. Open banking requires a more collaborative approach than traditional banking models, which will require significant effort to make successful.

The total number of open banking users will double between 2019 and 2021, reaching 40 million in 2021 from 18 million in 2019. The ongoing coronavirus pandemic is increasing the need for consumers to aggregate accounts and gain insight on their financial health, boosting momentum in open banking adoption. Open banking - along with instant payments and A2P messaging - are certainly technology trends you will want to watch in 2021 and beyond.