The Future of Payments

11 TSG Expert Predictions for 2025

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In 2024, the payments industry buzzed with innovation as we witnessed a shift toward new payment methods, seamless integrations, and software-driven experiences. Many of these shifts were mentioned in our annual letter and put a spotlight on the industry's hallmark of rapid change. Navigating this change is complicated. In our mission to bring clarity to the complex, we are truly grateful for the trust placed in us by many leading stakeholders this year, as they tackle unique challenges and strive towards ambitious growth goals. Looking ahead to 2025, together, we're shaping the future of payments. Read on to explore predictions for 2025 based on insights from a few of our subject matter experts.

- **Mike Strawhecker, President & Kurt Strawhecker, Managing Partner & Board Chairman**

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Mike Strawhecker, President

AI's utility in payments will diversify

The constant activity, multiparty relationships, and immense datasets that embody the payments industry go hand in glove with artificial intelligence. The industry's AI story has already completed its first chapter with early roots in risk mitigation. The next chapter is unfolding, and I expect 2025 to be a year where experimenting with AI beyond fraud applications will ramp up. Use cases will expand in merchant support and retention, optimization from checkout to pricing, as well as merchant portfolio data analysis.

Related: AI Use Cases in the Payments Industry

Sam Wares, Director of Client Success

A recipe for increased M&A will form

The overall sentiment amongst analysts is that M&A activity will increase in 2025, both for corporate and private equity deals. Support for this prediction includes a continuation of rate decreases, record levels of dry powder ready for investment, typical holding times for PE investments in 2020 and 2021 coming due (i.e., 3-to-5-year exit expectation), and an expectation of deal-making from the card networks and largest acquirers as they try to increase stickiness with clients and partners. Payments companies will keep their eyes on technology plays in their pursuit to be all things to their customers and as they search for avenues to leverage AI.

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Mark Waring, Senior Associate

Latin America & Africa will see the most change in payments

The year 2025 will see many interesting developments outside the United States. The markets that will see the most change in payments are Latin America and the African continent. In both areas, we will witness an increase in digital commerce, especially using mobile devices. Cash economies won't be displaced. But we will see a dramatic increase in non-cash commerce for everyday purchases: for food at the market, transportation, payment of utilities and taxes, to name a few.

Business-to-business commerce will also become increasingly digital. Companies in LATAM and Africa rely on ERP systems to track inventory, taxes, and deliveries to customers. These systems enable invoices to be paid digitally and can be tied to other financial services like extension of credit.

Each market has its own peculiarities, so U.S. companies that want to be part of these growing ecosystems need to form in-country partnerships, and they need to be prepared to spend time to understand the needs of consumers and businesses that are specific to the regions.

Related: Payments Vibrancy in Latin America

Tom Bell, Board of Advisors Member

Software & bank channels will be critical

Software led payments will continue to be the highest growth channel for payments providers. Partnering with ISVs and SaaS providers to enable embedded payments and broader embedded finance solutions will yield above average growth rates but also require above average investments. To win in this channel, payments providers must invest in people to manage the channel, technology to continuously improve their integration suite and incentives to win and maintain a lead position with a partner. Additionally, bank channels (FIs) will gain importance for payment providers. Banks have traditionally been a consistent source of leads. At times, some have predicted the death of banks as a channel. Going forward, I believe the inverse is true. With the increasing number of embedded payments/finance use cases, the role of a bank as a partner and sponsor will be critical for payments providers to win.

Cliff Gray, Senior Associate

Cryptocurrency will have a bright future

In the realm of alternative payment methods, expect many factors to combine in 2025, boosting cryptocurrency into the fore. Merchant dissatisfaction with card brands and interchange fees has fueled the rise of alternative methods, many of which resonate more naturally with Gen Z consumers than traditional branded accounts. Cryptocurrency is already making large gains, simplifying international B2B commerce; an incoming, crypto-friendly federal administration will further remove friction from business development. Recent announcements from industry giants Stripe and Shift4 embracing cryptocurrency payment methods highlight the growing momentum - the future is clearly bright for cryptocurrency.

Josh Istas, Head of Product

Acquirer pricing won't race to the bottom

Merchant acquirers are positioning payment acceptance as a function of a holistic value proposition. Merchant pricing, or the cost of acceptance, reflects additional value-added services provided to merchants to help manage their business. Accepting electronic payments is one aspect of business operations. Modern acquirers bolster their offering with fraud prevention, chargeback management, data security solutions, loyalty programs, gift cards, mobile payments, analytics, and recurring billing.

Without significant regulatory or legal developments, there seems to be little momentum in reducing acquirer costs. Blended interchange increased 2-3 BPS over the last year, according to TSG's Acquiring Industry Metrics™. Cost increases drive higher prices, especially with Cost+ or Pass-through pricing models. The merchant desire for alternative pricing methods that ease the cost of acceptance, such as surcharging and convenience fees, will remain, but adoption could be limited by regulatory and technical needs. While alternative pricing methods benefit merchants and acquirers, they typically come with heightened compliance. Merchant acquirers will benefit from supporting merchant navigation of network regulations.

Shelley Joyce, Senior Associate

Biometrics & NFC will make checkout intuitive

We will continue to see an increase of frictionless payments, powered by technologies like biometrics and near-field communication (NFC), which offer seamless, intuitive transactions that enhance customer experiences by removing interruptions. This trend is expanding across stadiums, convenience stores, and pilot programs as consumers increasingly demand personalized and hassle-free payment options.

Small businesses are also pursuing advanced capabilities such as cross-border payments, omni-commerce solutions, and data analytics to drive growth and efficiency. Integrated Software Vendors (ISVs) are meeting this demand by offering comprehensive solutions that combine payment processing with value-added services like business management tools. These offerings enhance revenue potential for merchants and streamline operations. TSG's AIM analytics platform shows that merchants integrated into their acquirer through software partners have ~5% less attrition than non-integrated merchants when comparing annual payment volume attrition. TSG data also shows that software-integrated merchants are typically 20% larger than non-integrated merchants. As ISVs continue to innovate, they are reshaping the U.S. merchant acquiring landscape and driving the adoption of integrated, technology-driven payment ecosystems.

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Kelly Prange, Senior Research Analyst

Buy now, pay later use will vary by credit score

Buy now, pay later (BNPL) services provide consumers with easy access to credit, and usage of BNPL is growing year-over-year. In our fifth annual 2024 Holiday Consumer Study with the Electronic Transactions Association (ETA), we found that BNPL usage is similar between low, middle, and high-income consumers. However, the interest-free credit services BNPL provides appeal to those with little to no access to more traditional credit sources. I predict that consumers with lower credit scores will be more likely to use BNPL than consumers with higher credit scores.

Related: 2024 Consumer Holiday Spending Study

Jeff Fortney, Senior Associate

Surcharging use will fall

Surcharging is a fee added at the time of sale. Usage will continue to fall due to rules enforcement and restrictions on all debit cards. By the end of the year, surcharging will be almost exclusively used in the B2B world and large tickets. Dual Pricing is listing two prices for each item, one as the 'price' and the other listed as the 'cash price.' Restaurant usage will grow while point-of-sale systems provide support. Due to repricing requirements and two prices posted, retail will be slower to adopt dual pricing, if at all. Cash Discount is a discount given when paying with cash at the time of sale. Although this has been available for many years, it will gain traction with retail merchants throughout the year. Discounts will likely be at least 5%. Retail merchants will raise pricing to offset the cash discount offered. This will increase revenues. Restaurants choosing this option will be lower than those choosing Dual Pricing.

Related: Surcharging Overview

Alex Ferguson, Product Manager

Gateways will expand supported payment methods

A trend that has gradually gained steam over the past few years and should continue to accelerate into 2025 is the acceptance of emerging payment methods such as buy now, pay later, cryptocurrency, and QR. In TSG's 2024 Payment Gateway Directory, 30% of listed gateways indicated they supported the acceptance of buy now pay later transactions, up from 22% in 2023. Functionality to accept cryptocurrency transactions also rose to 19% in 2024 from 14% in 2023.

Additionally, following the recent example of notable competitors like NMI, an increasing number of gateways that previously indicated they exclusively white-labeled to other payment ecosystem participants, such as FIs, merchant acquirers, and PayFacs, have now stated that they've begun to sell their services directly to merchants in addition to their white-label third-party gateway services. In 2024, only 12% of listed gateways indicated they were white-label gateway providers and did not sell directly to merchants.

Related: TSG Announces 2024 Top Performing Payment Gateway APIs

Trevor Forbes, Director of Engagement Strategy

Payments companies will gain more control over their infrastructure

In 2025, I expect more companies across all payment processing value chain levels to take greater ownership of their customers' payment experiences. It's increasingly common for multiple financial services to be offered under one roof, and users are ready to explore options.

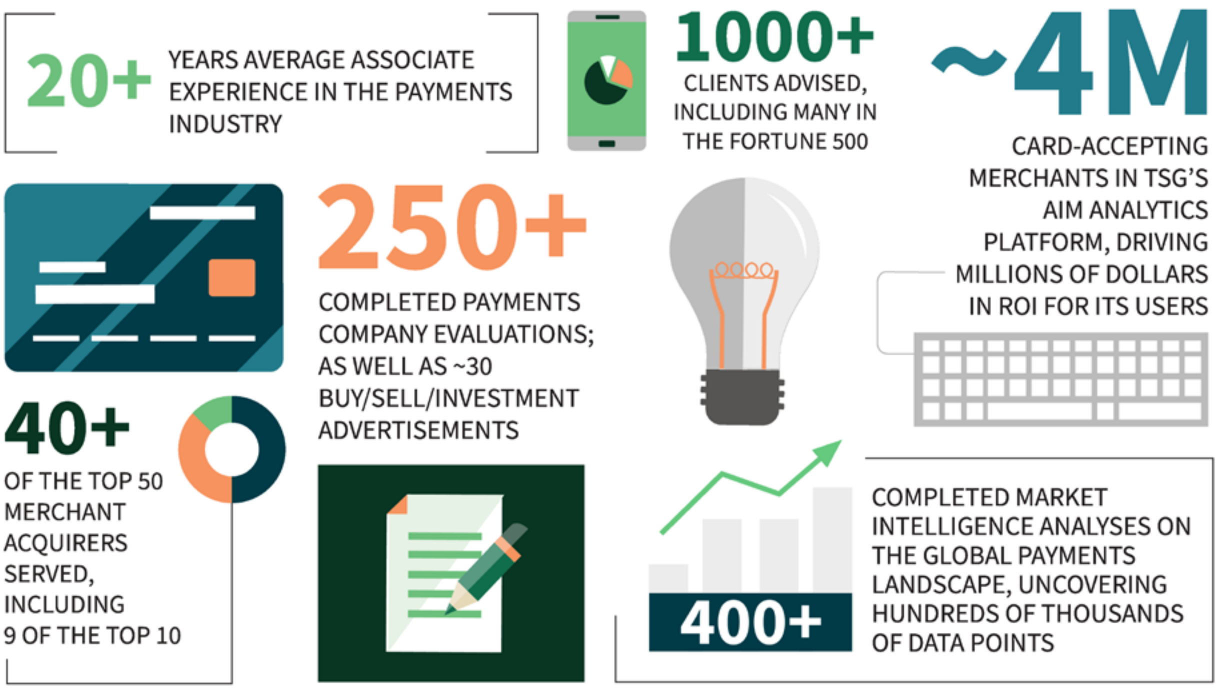
More merchant acquirers are taking processing technology in-house through proprietary gateways, back-end settlement platforms, and point-of-sale technology.

More SaaS platforms and point-of-sale providers are becoming payment facilitators and ISOs, moving away from being open systems that allow merchants to choose a processor.

The economies of scale offered by transaction processing and market demand for best-in-class software and hardware experiences are driving infrastructure investments to a new height.

About TSG

TSG is a fast-growing analytics and consulting firm. The company serves the entire payments ecosystem, from fintech startups to Fortune 500 companies. The firm provides its clients with advisory services, research and analytics to help them plan and execute their strategic initiatives. Based in Omaha, a recognized payments industry hub, TSG is an established leader in this high-growth, ever-evolving space.



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