Q2 2024

PYMNTS BEYOND THE HORIZON

How to Identify **Unexpected Threats** That Could Impact Your Business

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NAVIGATING THE UNKNOWN:

Strategies for Turning Unforeseen Business Threats Into Opportunities

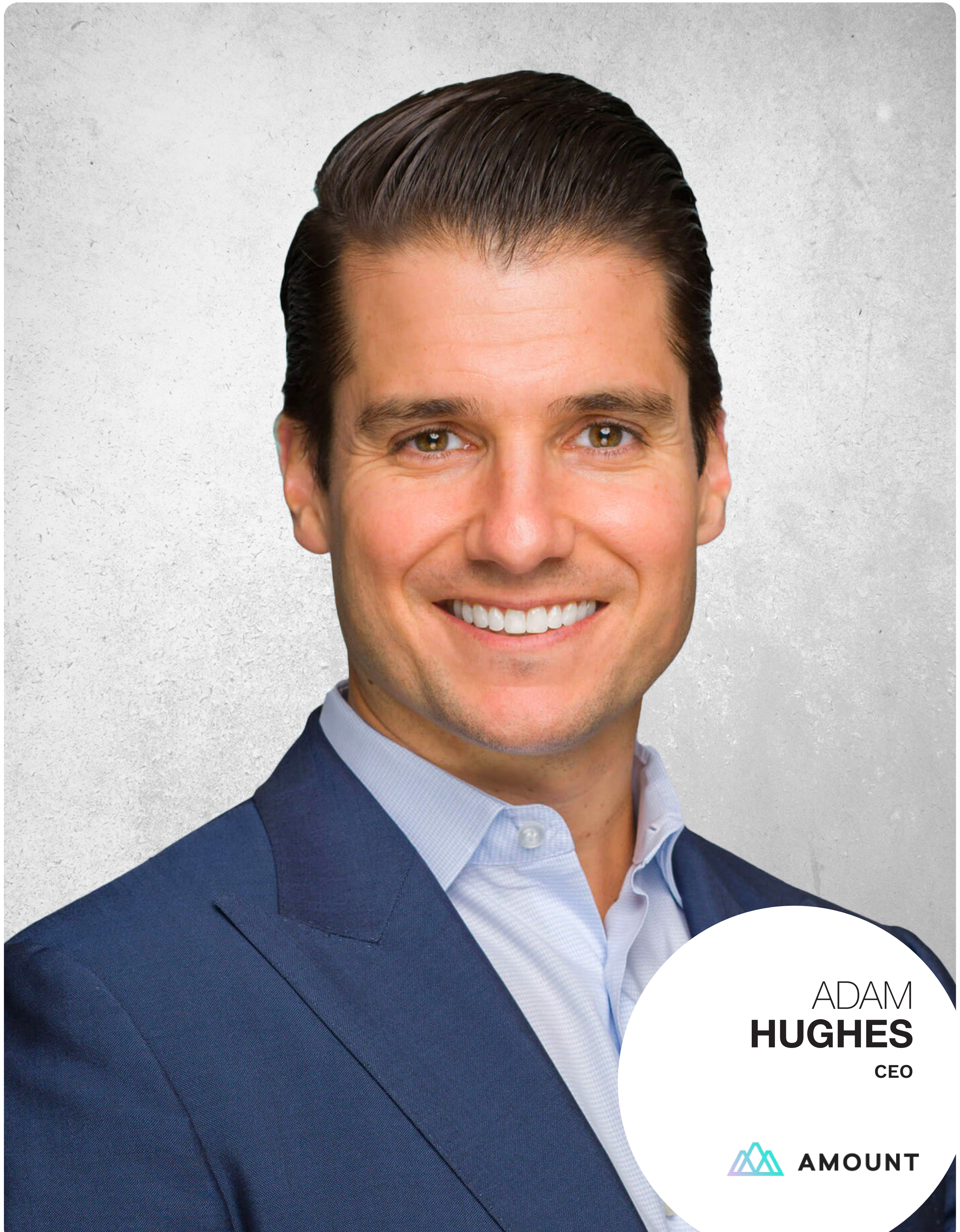
It's not just the known challenges that companies need to be wary of — it's the unexpected threats that can suddenly appear and disrupt even the most well-laid plans. This new PYMNTS eBook, "Beyond the Horizon: How to Identify Unexpected Threats That Could Impact Your Business," dives deep into the various unforeseen challenges that organizations might face and how to prepare for them.

As we move into the second half of 2024, businesses are navigating a complex environment characterized by regulatory shifts, economic uncertainty and rapid technological advancements. Whether it's the potential for new regulations to reshape industries overnight, as highlighted by executives like Thomas Priore from Priority, or the need to stay ahead of cybersecurity threats, as emphasized by Doug Brown of NCR Voyix, this eBook provides invaluable insights into how to stay resilient in the face of unpredictability.

Inside, you'll find expert perspectives from industry leaders who share their strategies for not just surviving but thriving amid uncertainty. For instance, Adam Hughes of Amount discusses the dual challenges of regulatory compliance and the ethical use of artificial intelligence (AI) in FinTech. Meanwhile, Serena Smith from i2c offers advice on making balanced tech investment decisions that can help firms adapt to both economic volatility and technological disruption.

But it's not all doom and gloom. The eBook also explores the opportunities that these wild cards can create. Dean M. Leavitt from Boost highlights how businesses can capitalize on positive trends even during uncertain times, while Ava Kelly of Thredd explains how embedded finance and digital payments are helping firms remain agile in unpredictable markets.

So, as you dig into this eBook, be prepared to uncover not just the threats lurking beyond the horizon but also the strategies that can turn these challenges into opportunities for growth and innovation. Whether you're a seasoned executive or a rising star in your industry, the insights contained within can help you navigate the unexpected with confidence.



NAVIGATING 2024: REGULATORY SHIFTS AND AI IN FINTECH

As we move into the second half of the year, executives may brace for the unexpected. Recent years have brought significant market swings, pandemics and geopolitical instability, each posing unique challenges and opportunities. As CEO of Amount, a software as a service (SaaS) deposit origination, lending and decisioning platform partnering with banks and credit unions, I understand the wild cards that could impact our industry. It's crucial for Amount and other FinTechs to stay vigilant, dynamic and innovative to best serve financial institutions.

Regulatory Changes

Regulatory bodies diligently oversee bank/FinTech collaborations to ensure financial stability, consumer protection and fair market practices. New policies can emerge rapidly, affecting operating models. Increased scrutiny can lead to more frequent audits and a need for enhanced reporting and transparency, potentially diverting resources from innovation and growth initiatives. FinTech companies serving traditional banks and credit unions must navigate these regulatory hurdles effectively.

At Amount, we are committed to staying ahead of regulatory trends, continuously updating our platform to ensure compliance and provide peace of mind to our clients, allowing them to scale confidently and profitably. With experience working with large enterprise banks and credit unions, we adhere to the highest standards to ensure compliance for clients of all sizes. We also engage with regulators to help them better understand current industry dynamics and trends.

AI and Machine Learning

Artificial intelligence (AI) and machine learning (ML) models can inadvertently perpetuate biases, leading to unfair lending practices. Regulators require financial institutions and FinTech companies to demonstrate how their algorithms make decisions and ensure these decisions do not discriminate. This necessitates significant investments in developing explainable AI models and conducting rigorous audits to identify and mitigate biases, which can be resource-intensive and slow new AI-driven product deployment.

Additionally, robust data privacy and security measures are essential. AI and ML models rely on vast amounts of data, but regulations like GDPR and CCPA impose strict guidelines on personal data collection, storage and processing. Compliance with these regulations requires significant investments in data governance frameworks and security infrastructures, increasing operational costs.

At Amount, we provide clients access to AI's power by developing tools that proactively recommend policy optimizations. Leveraging the thousands of data points collected by our platform on every application, we identify miscalibrated rules or new rules for under- or over-performing populations. This approach allows clients to use modern AI and ML techniques transparently and comply with existing frameworks for policy adjustments.

> ***While the future is inherently unpredictable, we are prepared to navigate challenges and seize opportunities.***

While the future is inherently unpredictable, we are prepared to navigate challenges and seize opportunities. By staying agile, innovative, and customer-focused, we turn potential headwinds into tailwinds, driving growth and success for our company and our clients.

TECHNOLOGY HELPS FIRMS MEET **EXPANDING DATA LOCALIZATION REGULATIONS**

Payment transactions are processed through multiple parties with data passed along to each party to ensure the transaction's legitimacy and facilitate approval and the flow of funds.

With factors ranging from geopolitics to global pandemics to provinciality, the potential for countries, government agencies and central banks to focus on localization continues to increase. As countries enact data localization and local payment data processing regulations, banks and payment companies will need to find ways to stay in conformance with applicable laws and regulations. Leveraging cloud infrastructure and modern data analytics can help them do this, enabling them to approve only legitimate transactions, reduce fraud and create a frictionless customer experience.

At AWS, we've been helping payment customers in countries like India, Indonesia and Switzerland ensure that they are retaining and processing the necessary data in-country (within AWS regions) without having to support their own data centers and staff, drastically reducing time to conform with regulations from years to months. Our payments customers are also using AWS Local Zones and AWS Outposts to ensure they can utilize the AWS services they require for things like data analytics, personalization, credit worthiness and fraud prevention in countries where AWS doesn't yet have a region but customers want to keep data close to their data centers. AWS launched Amazon Payment Cryptography, a cloud-native Payment HSM managed service, in 2023 and our customers are excited to be able to have a PCI-compliant service for card payment cryptography in the cloud without having to maintain dedicated data centers or co-location facilities, reducing overhead and latency. As more payments companies move core processing to the cloud, the availability of this service enables them to be where their customers need them without incurring large fixed costs to deploy physical HSMs. We expect that as this service expands to more AWS regions, and as more countries enact data

> *As efforts to require localized data and payment data processing increase, we see a lot of opportunities to help payments companies conform to these requirements.*

processing localization, banks and payments companies will find more and more value from this service.

From a fraud prevention standpoint, we expect payments companies to turn to evolving machine learning techniques like federated learning, where they can retain the data and train models locally while sharing the model updates globally to maintain data privacy and security. Organizations are enhancing their federated learning approach with privacy-enhancing technologies (PETs) in the cloud to enable collaboration while meeting local requirements such as Europe's General Data Protection Regulation (GDPR) and India's Personal Data Protection Bill (PDPB).

As efforts to require localized data and payment data processing increase, we see a lot of opportunities to help payments companies conform to these requirements. And a byproduct of leveraging the cloud to help adhere to these regulations will be faster time to market and better customer experiences. The ability to spin up IT resources in the cloud to test out ideas and then scale the successful ones is one of the biggest drivers of disruption in the payments industry.

FINTECH HELPS FIRMS **CAPITALIZE ON POSITIVE TRENDS AMID UNCERTAINTY**

It's only natural for businesses and institutions to remain vigilant for the unexpected. Recent years have highlighted the market's susceptibility to unforeseen events, from pandemics to geopolitical upheavals. As such, it's prudent to evaluate the potential challenges and opportunities that unexpected events and wild cards might present to your organization.

When considering those wild cards, several factors stand out. One significant area of uncertainty is the election year. The business community's response to election results can be unpredictable, creating a point of potential instability.

Additionally, the possibility of war or geopolitical conflict remains a constant concern, as these events can severely impact supply chains, the movement of goods along maritime routes and the cost and availability of fossil fuels.

On the headwind side, interest rate fluctuations, both globally and domestically, remain a pressing concern, as the cost of capital dramatically impacts procurement decisions and other corporate investments. Another significant headwind is the ongoing threat of bad actors and fraudsters becoming increasingly sophisticated. Staying ahead of these cyber threats via the deployment of tools and processes specifically designed to reduce attack surfaces and defend intruders is now “table stakes.”

Despite these challenges, several tailwinds provide reasons for optimism. The economy is generally strong, with many feeling that the risk of recession has leveled out. Spending and GDP are up, indicating robust economic activity.

The continued adoption of payment digitization across the B2B landscape is accelerating. Traditional payment methods like checks, wires and ACH which do not offer working capital benefits are giving way to the increased adoption of commercial cards, with a special focus on the virtual cards. This shift is bolstered by innovative optimization tools for accounts payable (AP) and accounts receivable (AR) departments which drive the need for a digitized data exchange among trading partners.

More importantly, a tectonic generational shift is underway. Younger generations are taking responsibility for how payments are made and received, setting a higher expectation of consumer-like experiences in the payments arena. This shift is driving innovation and the adoption of more efficient, digital payment methods.

Another positive trend we are seeing is an increasing willingness of financial institutions and legacy providers to partner with FinTechs for expansion, rather than opting to build their own solutions. These partnerships have immense potential to accelerate access to improved payment methods and improve interoperability across the ecosystem.

Boost’s product suite offers significant opportunities to serve our clients and partners on their digitization journey. Our patented technology solutions bridge the needs of buyers and suppliers around the world, eliminating payment friction and delivering process efficiency, security, data insights and revenue optimization. The flexibility of our platform allows for quick and easy implementation, which expedites the speed to market for all stakeholders.

While we all must remain vigilant about the uncertainties that could impact our businesses, we should also embrace the tailwinds that provide significant opportunities for growth and innovation. By staying ahead of challenges and capitalizing on positive trends, we can navigate the unpredictable landscape and continue to thrive.

> ***The economy is generally strong, with many feeling that the risk of recession has leveled out. Spending and GDP are up, indicating robust economic activity.***

TODAY'S BUSINESSES MUST BE **'PREPARED FOR ANYTHING'**

In recent years, economic and geopolitical instability has become a constant, showing no signs of abating. Our once well-oiled global systems now exhibit potential for failures with serious consequences. Coping with the unexpected has become the norm.

Facing instability requires different capabilities compared to optimizing performance in a stable environment. Flexibility, adaptability, agility and resilience have fundamentally replaced mere optimization. Risk management has become more crucial than ever, potentially outweighing the importance of short-term performance.

Disrupting our well-defined systems can bring new challenges and potential threats, however, it also presents opportunities for those companies that can better adapt to this new reality. Tailwinds do not just happen to businesses; they benefit those who create the conditions to harness them.

Businesses should focus on three basic points, now more than ever:

1. **Understanding and enhancing the value provided to customers:** The raison d'être of any business, in every industry, is to provide value to its customers. Focusing on the value provided and perceived is even more crucial in times when parameters and priorities are likely to change. Laggards or companies taking their positions for granted will be challenged or rendered irrelevant.

2. **Operational excellence:** This focuses on resilience, flexibility and agility. Instead of pretending to predict future events, which might be possible in a stable environment, businesses should focus on being prepared for anything. The best way to adapt is to rely on rock-solid fundamentals. This means super-efficient base processes that provide a solid foundation for future performance. Like any art form or sport, working on the basics repeatedly is critical at all levels and will make even the best-performing athlete better, regardless of future adversity.

3. **Risk management:** Preparing for the unknown means bringing risk assessment, management and prevention to the heart of every business model. Optimizing performance at the expense of higher risk cannot be pushed to the same limits in an unstable environment. Resilience always has value, especially in unstable times. However, this value is often overlooked or ignored because it cannot be anticipated and measured in traditional performance measurement systems. Businesses need to understand that no increased performance comes without higher risks. Finding the right balance given the conditions becomes a key critical exercise.

Technology can help. Artificial intelligence (AI) can optimize basic processes, strengthening core operational performance and allow organizations to react faster to changing conditions. In uncertain times, it is not the moment to delay investments that could decide your business's future. However, technology is a means to an end. A tool does not create value by itself; it needs a brain behind it to work its magic. Use wisdom, creativity, and understanding to master new technologies and create competitive advantages that will make your business thrive.

Resist the temptation to overestimate the short-term impact of new technologies and the opposite temptation to ignore their potential long-term impact. We often overestimate what new technologies can do in one year and undervalue their impact over a decade.

> ***Facing instability requires different capabilities compared to optimizing performance in a stable environment. Flexibility, adaptability, agility and resilience have fundamentally replaced mere optimization.***

SECURITY OFFERS COMPETITIVE EDGE IN EVOLVING PAYMENTS LANDSCAPE

As we look ahead to the potential of the future, the payments industry faces both opportunities and challenges. Finexio has been at the forefront of accounts payable (AP) payments as a service for nearly a decade, serving mid-market and enterprise organizations. Our innovations, including AI-driven supplier management, Card by Mail and Finexio Shield, have positioned us as industry trailblazers. However, we remain vigilant about the impacts of potential shifts in the payments landscape.

Technological Advancements: The Promise of AI Fulfilled

Continued advancements in artificial intelligence (AI) and automation are presenting an ever-wider range of opportunities for enhancing payment security and efficiency. At Finexio, we're leveraging these technologies to bolster our fraud prevention capabilities, reduce operational costs for customers and optimize payment processes. The imperative is to stay on top of the promise of AI and use the gift it provides to stay aligned with the evolving needs of the payments industry.

Fraud Growth: Security as a Competitive Edge

The fraud and risk environment continues to evolve, with a focus on promoting electronic payments and enhancing security. Staying ahead of these changes isn't just about staying safe — it's about maintaining a competitive advantage for partners and their customers. Our commitment is to deliver secure, compliant payment solutions and payment fraud protection.

Strategic Partnerships: Expanding Our Reach

Collaboration is key in the payments ecosystem. Our partnerships with leading accounts payable software providers, financial institutions and industry peers allow us to extend each other's platform reach and offer more comprehensive solutions together to a broader market.

The imperative is to stay on top of the promise of AI and use the gift it provides to stay aligned with the evolving needs of the payments industry.

Navigating Economic Uncertainties

Economic volatility remains a concern for everyone. While economic downturns may give pause to investing in procure-to-pay platforms, they also present opportunities. Finexio's ability to generate strategic revenue from payments can help offset software costs for our partners as well as their customers, making our embedded payments solutions even more attractive during challenging times.

Cybersecurity: The Ever-Present Challenge

The escalating threat of cyberattacks and data breaches is an ever present and significant risk to the payments industry. Finexio's partnership with our lead investor J.P. Morgan ensures the highest level of security for the payments operations we provide as a service through our P2P partners. Notwithstanding, we recognize the need to maintain constant vigilance and continue to invest in payments security and ongoing innovation in this area.

Staying Ahead in a Competitive Landscape

While competition in the FinTech space continues to intensify, Finexio operates in a specialized niche. Our focus on providing beyond-human-scale optimization, monetization, and security in how we manage AP payments as a service sets us apart. By leveraging technological advancements, staying ahead of regulatory requirements, and maintaining a laser focus on payments security and fraud prevention, we're well-positioned to navigate the potential headwinds and tailwinds ahead.

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BALANCED DECISIONS ON TECH INVESTMENT **HELP FIRMS THRIVE AMID CHANGE**

As we look ahead to the potential of the future, the payments As we move forward into the second half of the year, the payments industry continues to be as dynamic and unpredictable as ever. Here are my insights into the wild cards that could impact our industry, potentially serving as either headwinds or tailwinds for companies navigating these turbulent times.

Fraud Prevention, Delinquencies, New Regulatory Environment

One of my foremost concerns is the rise in fraud and delinquencies in credit card processing. The increase in delinquencies is particularly alarming as it signals deeper issues within our financial ecosystem. In addition, many startups are or have failed, which added to the heightened regulatory oversight on and from banks. While necessary, this oversight creates longer due diligence periods for both startups and existing clients, significantly slowing down industry approvals and innovation.

Regulatory Shifts and Political Instability

Regulatory changes and political instability are also high on my radar. With recent industry collapses and evolving regulations, banks are experiencing increased pressure to comply with a myriad of new rules. This is not just a domestic issue; global regulations such as GDPR in Europe and specific mandates in regions like Bahrain require financial institutions to adapt quickly and efficiently. i2c Inc. is uniquely positioned to assist in this regard, offering a single tech stack that supports compliance with various global regulations, enabling institutions to scale without getting bogged down by regulatory complexity.

Technological Advancements and Investment Decisions

Another unpredictable factor is the rapid pace of technological advancement. Emerging technologies being created with artificial intelligence (AI) and continued releases like FedNow present both opportunities and challenges. Banks struggle to determine where to invest in the payments landscape, with numerous options complicating decision-making. The rise of these technologies requires a careful balance between innovation and risk management.

By focusing on fraud prevention, regulatory compliance, technological advancement and market adaptability, i2c Inc. helps financial institutions not only survive, but thrive amid the wild cards of today's business environment.

i2c Inc. is at the forefront of helping financial institutions navigate these technological waters. We provide resources and insights to help banks prioritize consumer needs, AI tools to combat fraud and offer additional reporting for regulatory compliance. By leveraging our thought leadership and product solutions, banks can make more informed decisions about their technology investments, ensuring they remain competitive and compliant in a rapidly changing environment.

Market Volatility and Economic Uncertainty

Market volatility and economic uncertainty are perennial wild cards that can impact the payments industry. It's crucial to be prepared for sudden market swings, geopolitical instability and other unexpected events that can disrupt business operations. i2c Inc. offers robust tools and strategies to help financial institutions weather these storms.

In conclusion, while the future is inherently unpredictable, having a strategic partner like i2c Inc. can make navigating these uncertainties more manageable. My insights underscore the importance of proactive planning and the adoption of innovative solutions to stay ahead in the ever-evolving payments landscape. By focusing on fraud prevention, regulatory compliance, technological advancement and market adaptability, i2c Inc. helps financial institutions not only survive, but thrive amid the wild cards of today's business environment.

HOW FINTECHS **CAN THRIVE** WITH REGULATORY UNCERTAINTY

In the fast-paced world of FinTech, wild cards can emerge suddenly, reshaping the industry overnight. As we look ahead, one potential game-changer looms large: increased regulatory requirements.

Recent events — from state-level money transmission changes to reconciliation and compliance failures and high-profile cybersecurity breaches — have put regulators on high alert. The resulting regulatory focus could redefine the competitive landscape, creating both challenges and opportunities for fintechs.

Key areas likely to face stricter oversight include:

1. Financial stability and liquidity
2. Cybersecurity and fraud prevention
3. Consumer protection
4. FinTech-bank partnerships

For some FinTechs, especially younger startups, navigating these new regulations could prove overwhelming. Companies that have prioritized rapid growth over robust compliance may find themselves scrambling to meet new standards imposed by bank partners and their regulators, potentially facing fines, restrictions or even closure.

But added oversight doesn't have to spell disaster. In fact, for well-prepared companies, it could be a golden opportunity. FinTechs that have invested in compliance, security and solid partnerships are well-positioned to emerge with best-in-class platforms.

At Priority, we've long recognized that offering banking services demands precision and discipline. Building systems with compliance and security at their core isn't just about meeting current standards — it's about being a trusted partner and future-proofing your business.

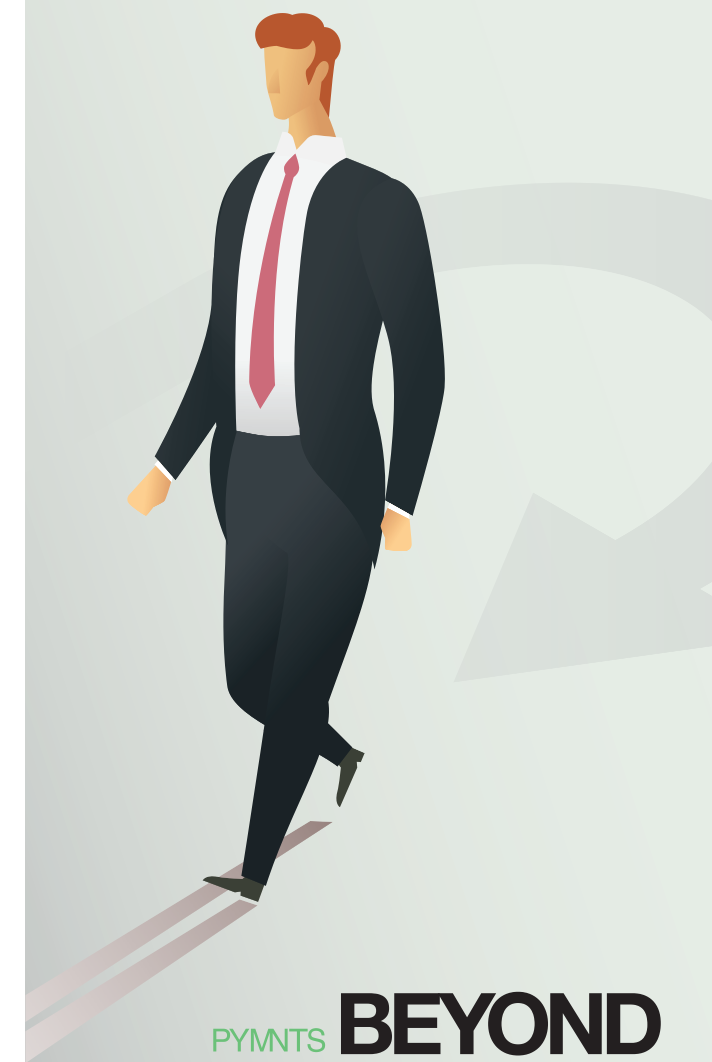
The coming regulatory changes will likely raise barriers to entry in the FinTech space. New entrants may face increased licensing requirements and scrutiny, and associated additional operating costs. This trend could favor established players who can provide stability and scale.

While these changes won't be without challenges, even for well-prepared companies, they also present opportunities. As less prepared competitors struggle, those with robust compliance and security measures will be positioned to gain market share and build trust with regulators, bank partners and customers.

Moreover, the approach to bank partnerships could become a key differentiator. While some FinTechs have pursued strategies to disintermediate banks, those who recognize the value of collaboration may find themselves at an advantage. Banks remain a significant pool of assets globally, and coordinating with them — rather than working against them — allows for solutions that augment customer relationships while maintaining regulatory compliance and capitalizing on what banks do well.

As the regulatory landscape evolves, the FinTech industry faces a critical juncture. Those who have invested in compliance and security won't just survive — they'll be poised to lead the charge in creating a more stable and trustworthy FinTech ecosystem for all.

In the face of this regulatory wild card, the question for FinTechs isn't just "Are you prepared?" but "Are you ready to seize the opportunity?"



PYMNTS **BEYOND** THE HORIZON

How to Identify **Unexpected Threats** That Could Impact Your Business

NAVIGATING UNPREDICTABILITY IN THE WORLD OF TAX AND COMPLIANCE

As a global tax and compliance solutions provider, dealing with constant change and uncertainty is a mainstay of our business. Everything from geopolitical issues to the current state of the economy have the potential to inspire, inform or disrupt change. As I look forward to the latter half of 2024 and beyond, I expect this trend to not only continue, but likely accelerate.

Looking at the global marketplace holistically, there are a number of factors likely to drive action by regulatory authorities between now and the turn of the year. In the U.S. we are dealing with market uncertainty, talk of an impending recession and higher prices, all on the cusp of a presidential election. Internationally, we are witnessing geopolitical flare-ups that are likely to impact global commerce, leading to supply issues and cost fluctuations.

In response, governments and tax authorities are nearly certain to react in an effort to balance the need for continuous revenue while providing relief to businesses and citizens who are experiencing economic hardships. This is where things tend to get extremely complicated in our business as many of these efforts will be short-term stopgaps with potentially long-lasting tax ramifications.

This is all taking place in conjunction with the ongoing wave of technology changes we are experiencing globally. The way in which governments collect revenue has changed significantly in recent years and the first half of 2024 was a stark realization for many businesses as they were confronted with these changes head on. Gone are the days of remittance after the fact; today, most governments are requiring real-time reporting and adherence to tax obligations. These effects will continue to be felt in the second half of this year.

> ***The way in which governments collect revenue has changed significantly in recent years and the first half of 2024 was a stark realization for many businesses as they were confronted with these changes head on.***

Finally, I'd be remiss if I didn't talk about the influence that artificial intelligence (AI) is having on our industry. While we like to refer to AI as more evolutionary than revolutionary in the world of tax and compliance, there is no denying its impact and importance. Like many aspects of business, tax tends to be a copycat function. When governments are successful in implementing new mandates and standards, others are sure to follow closely behind. AI is expediting this process and using predictive analytics to anticipate changes has become an essential part of our business.

While I have identified several forces for change in the coming months, it's important to note that for any business conducting commerce across multiple countries and jurisdictions, the continuous evolution of the tax landscape has become the norm. This is why we advise customers to have a long-term strategy when it comes to tax and compliance so that no one event or outside factor can disrupt your business operations.

There will always be changing conditions that are beyond your control and that will influence your compliance posture. What you can control, however, is how you choose to address your compliance readiness.

PYMNTS **BEYOND** THE HORIZON

How to Identify **Unexpected Threats** That Could Impact Your Business

DIGITAL WALLETS PROMISE TO RESHAPE FINANCIAL ECOSYSTEM

The biggest albeit unsurprising "wild card" for the future of TerraPay and the global money movement landscape has got to be digital wallets.

The rise of digital wallets is taking place at a brisk pace. While cash is still dominant globally, the growing popularity of digital wallets points to a different future. Analysis from Accenture and FIS shows the significant impact of wallets on global cash displacement, forecasting cash transaction value to decline to around USD 6 trillion by 2026, which will be 10% of all commerce transactions; during the same period, ownership of wallets will almost duplicate to surpass 5 billion. Capgemini predicts that by 2027, new digital payment methods will make up approximately 30% of total global volume, with wallets leading this shift to alternative payments.

As the fastest-growing financial tool, digital wallets have transformed how consumers pay. From merchant POS and eCommerce to utility bills, digital wallets have grown in popularity, with consumers becoming accustomed to the convenience and flexibility of cashless payments. Forbes recently reported that 53% of consumers now use digital wallets more often than traditional payment methods. The consumer is changing. Gen Z and millennial populations prefer the ease and speed of wallets, and in the next few years, they will be the largest workforce and the largest consumer group. This growing appetite for real-time payments will continue to have a major impact on businesses worldwide. A recent report from FIS Worldpay states that the share of transactions of mobile wallets in eCommerce will reach 54% by 2026 and 43% in POS payment methods, by the same year.

Currently, wallets play a crucial role in global payments and money movement, and going forward, they will be pivotal in enhancing the efficiency, security and accessibility of payments, contributing to a more connected and inclusive financial ecosystem. That said, the full potential of wallets can only be achieved when we work together as an industry to solve the existing barriers facing wallet adoption, including the lack of interoperability, integration challenges across multiple markets and more.

At TerraPay, we have a network of more than 2.1 billion wallets. Today, we partner with over 100 wallet providers globally and based on our own estimates the wallets participating in our money movement network are serving approximately 600 million individuals with no access to bank accounts. We have witnessed, first-hand, the critical social and economic impact of wallets (like M-PESA, Nequi and bKash) in serving underserved communities.

As wallets are becoming increasingly sophisticated with user experiences that range from multi-currency capabilities, personal financial services, cross-border remittances, domestic acceptance and rewards models embedded in the real-time payment experience, there is a big opportunity waiting to be tapped — one that will reshape the entire ecosystem.

PYMNTS **BEYOND** THE HORIZON

How to Identify **Unexpected Threats** That Could Impact Your Business

REMAINING RESILIENT WHEN CHALLENGES ARISE

The past four years have shown us that industry leaders should always keep an eye out for the unexpected. However, it should also remind us that with a bit of flexibility and resilience, no headwinds are too strong to navigate — including a global pandemic, tumultuous election cycles and the economic uncertainties that followed. In fact, sometimes these unprecedented events can yield positive momentum and opportunities for innovation.

The 2024 presidential election is obviously top-of-mind when it comes to unpredictability. To date, this election cycle has proven to be even more irregular and tumultuous than previous. It also goes without saying — of course — that those within the payments and credit union industries, like Velera, are perpetually in-tune with the political climate and policy changes that present an impact to our business, partners and consumers. Regardless of the results of this year's election, Velera is already preparing for policies and initiatives that could be influenced by the next administration, including fluctuations in inflation, interest rates and more.

Specifically, Velera has kept a close eye on potential Regulation II (Durbin Amendment) changes and the resulting impacts it will have on credit unions and other financial institutions. While this regulatory change is targeted toward debit issuers with assets over $10 billion, it will hit the least affluent consumers the hardest. The Durbin Amendment takes critical resources away from smaller financial institutions, including some of the credit unions we serve, whose revenues were heavily impacted by this ruling. As a result, these smaller institutions were forced to offset their interchange revenue losses by raising other fees that now fall to the consumer. As the election cycle unfolds, Velera will continue to engage with legislators to advocate for the best interests of our credit unions and our industry, voicing our collective opposition to these proposed changes.

The threat of cybersecurity incidents, which have the potential to compromise the data privacy of our credit unions and their members, is also top-of-mind at Velera. The recent CrowdStrike incident and ripple effect it had across the financial services, healthcare and transportation industries — among others — is a stark reminder that technology can open organizations up to a certain level of vulnerability. This recent incident proves just how important it is to have the right protocols, tools and processes in place if unexpected vulnerabilities arise, be

that from technology glitches or cybersecurity and fraud concerns.

While uncertainty will always remain present in the payments and credit union industries, careful contingency planning and keeping a pulse on shifts and trends can help organizations be best prepared to overcome any challenges they face. With the right tools and protocols in place, along with a willingness to be flexible and resilient, organizations can be well positioned to navigate the remainder of 2024 and enter next year ready to succeed.

PYMNTS **BEYOND** THE HORIZON

How to Identify **Unexpected Threats** That Could Impact Your Business

DIGITAL PAYMENTS, EMBEDDED FINANCE **KEEP FIRMS AGILE** IN CHANGING MARKETS

In today's volatile market, the only thing that is predictable is the unpredictable. The ability to adapt quickly to changing market conditions is paramount, particularly when "wild card" situations arise.

At Thredd, we're well positioned to act with our modular platform and agile teams. We empower clients worldwide to launch new payments programs quickly, issue virtual cards and provision them to mobile wallets as well as add supplementary services such as real-time fraud monitoring.

This need for quick adaptability can occur at a more macro level for businesses but can also apply to cardholders' everyday experiences. This became real for me while traveling out of the country this summer on holidays. Fraud was detected on my card and after validating the charge was not mine, I had to close my account and get a new card. Fortunately, a new card was delivered to my mobile wallet immediately and we didn't miss a beat on our vacation.

Acceleration of Digital Payments

One major tailwind is the continued global shift toward digital commerce. Consumers are increasingly adopting digital payments, and businesses are moving away from checks. This trend is accelerating the demand for flexible, scalable payment solutions. For example, the online travel agency (OTA) sector has led the way in adoption of virtual cards to manage payments to a large, international supplier base.

The Role of Embedded Finance

Embedded finance is another area where we see tremendous potential. There are many potential wild card opportunities here, as I expect to see the industry move toward supporting non-financial brands that want to seamlessly incorporate payments into their everyday customer experience.

We're seeing many verticals, from ridesharing to retail, embed innovative payment solutions into their offerings. For those new to the issuer side of payments, managing the requirements and multiple stakeholders involved in the process can be complex. Working with partners that can provide the necessary expertise and go-to-market execution capabilities will help brands start generating new revenue streams faster while reducing operational overheads and providing greater control.

With the only given in our industry being ongoing change, I remain confident that businesses who prioritize adaptability, ongoing innovation and the importance of the relationship with their customers will be well-positioned to navigate the unpredictable landscape.

Global Market Expansion

Another significant tailwind is the increasingly global economy. Our clients are expanding their businesses worldwide, and Thredd is there to support them with our global market presence. We have recently opened operations in the U.S. market in response to client demand, and our APAC business is already well established and growing rapidly. Our continued expansion beyond Europe, APAC and North America will allow our clients the ability to operate seamlessly across borders via a single relationship, and leverage our on-the-ground expertise.

Regulatory Impact

Navigating regulatory complexity and changes will always be a wild card as legislators contemplate new laws that could potentially impact FinTechs as well as banks.

Organizations and their partners who excel in compliance management, and consistently invest in keeping their programs secure, build trust with their customers. While ecosystem participants may not be able to predict the outcomes, having the right processes and partners in place to uphold the highest levels of compliance will always be a good investment.

With the only given in our industry being ongoing change, I remain confident that businesses who prioritize adaptability, ongoing innovation and the importance of the relationship with their customers will be well-positioned to navigate the unpredictable landscape.

THRIVING AMID ECONOMIC UNCERTAINTY

Has unpredictability become the new normal? Stock market fluctuations, shifting consumer behavior and rising unemployment are coming together to create a complex operating environment. Some might call it a perfect storm.

Others might see it as a challenge — the kind that breeds resilience and illuminates opportunities for change.

What to Prepare for as We Wrap Up 2024

As a provider of insurance programs to banks and credit unions, we're always looking ahead. We're keeping our eyes out for any market changes that might make waves for insurance and financial institutions.

One topic that's been hotly debated since the pandemic is the possibility of a recession. Even if we aren't officially in a recession, consumer perception of the economy matters. Right now, as many as 3 in 5 Americans think the U.S. is in a recession. A perceived recession, coupled with stressors like volatility in the S&P 500 and increased unemployment, can cause spending to take a hit.

Moving into the second half of the year, we're watching economic factors like:

- **Interest rates:** Rising rates have increased the cost of debt over the last few years, pumping the brakes on home and auto loans and traditional revenue streams for financial institutions. Though the Fed recently signaled a rate decrease, it is unlikely to result in material changes in lending markets. Now, there's more focus on generating non-interest income. For Franklin Madison, the need for non-interest income creates opportunity since financial institutions have a greater appreciation for insurance commissions generated from our programs to replace lost income.

- **Inflation:** The costs associated with the direct mail marketing of our programs — paper, ink and postage — have increased by more than 30% over the last three years. Addressing this wild card continually requires cost management and innovation. Successfully integrating a full-suite digital platform with our direct mail has enabled us to produce better results while keeping costs down as we see inflation return to historical norms.

- **Unemployment:** Though the unemployment rate has risen to over 4% from historical lows, it's unclear if the trend will continue. Increased unemployment typically is a lagging indicator of a looming recession. Insurance and protection products tend to be in high demand during times of uncertainty.

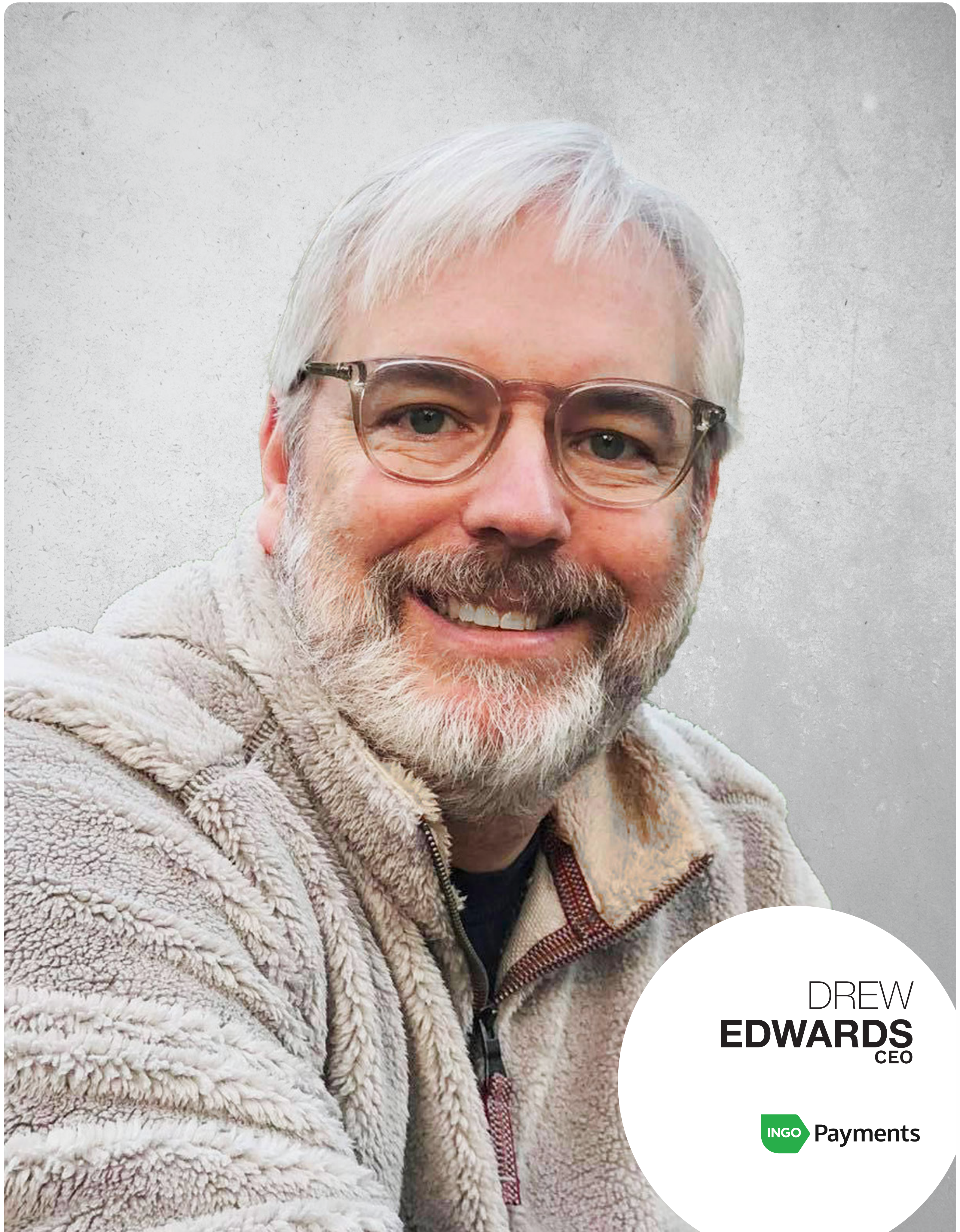
Along with shifts in the economy, we're also tracking consumer behavior:

- **Generational needs:** Credit unions have seen generational needs changing as members age and younger people look for new solutions. For us, this creates an opportunity to help credit unions become more member-centric by offering in-demand products. As a recent PYMNTS Intelligence report found, 44% of consumers want to buy insurance products from their financial institution.

  Introducing new insurance products can speak to generational needs, as well as life circumstances. We now offer an entire suite of supplemental insurance, including products such as cyber insurance, to address emerging risks like cyberattacks.

Flexibility: Our Key to Navigating Wildcards

There's no doubt that things change fast in our industry. We stay flexible in choosing the insurance carriers we work with and the products we provide. We also adapt by leveraging AI to create consumer-centric solutions. Our flexibility comes from the top down and extends to our diverse workforce, cultivating a company-wide culture of adaptability. This approach positions us to thrive, no matter the wild cards that come our way.



NAVIGATING THE REGULATORY **WILD CARDS** OF BAAS AND EMBEDDED BANKING

As we move into the second half of the year, the FinTech industry faces a landscape filled with unpredictable events that could significantly impact operations. For the Banking as a Service (BaaS) and embedded banking ecosystems — where banks partner with third parties to extend banking services through enterprises and FinTechs — elevated regulatory scrutiny has emerged as a key wild card. How we navigate this evolving scrutiny will determine whether it becomes a headwind that slows us down or a tailwind that propels us forward.

The Growing Regulatory Focus

Banking has always been a heavily regulated industry, but recent developments have intensified regulators' focus and scrutiny of partnerships between banks and third parties. With the world in the midst of a financial experience revolution, banks have turned to FinTech partnerships to meet new consumer expectations and compete. This has resulted in the rapid expansion of BaaS and embedded banking companies that bring modern external banking technologies and expertise. Banks have been partnering with these players to offer modern digital and embedded banking products outside of their core systems. However, some significant missteps and failures by individual players in the industry have drawn elevated scrutiny from bank regulators.

In today's environment, regulatory enforcement orders have become commonplace. Regulators are asking critical questions about how banks exercise proper oversight with respect to their FinTech partnerships and as these concerns grow, we can anticipate a wave of new regulations aimed at tightening controls within these partnerships.

Unemployment: Though the unemployment rate has risen to over 4% from historical lows, it's unclear if the trend will continue. Increased unemployment typically is a lagging indicator of a looming recession. Insurance and protection products tend to be in high demand during times of uncertainty.

While the exact path of regulatory developments is uncertain, we must proactively engage with regulators, invest in compliance, risk and the technology necessary to support the banking side of the partnership.

A more regulated environment could also enhance consumer confidence in FinTech products, leading to even greater adoption. However, aligning innovation with risk and compliance will be crucial. The potential of these partnerships is immense, but success will depend on getting the banking part right. Those who master this balance will find significant opportunities for growth.

Looking Forward

Looking ahead, regulatory scrutiny remains one of the most significant wild cards for our industry. While the exact path of regulatory developments is uncertain, we must proactively engage with regulators, invest in compliance, risk and the technology necessary to support the banking side of the partnership. We must continue to maintain open and transparent relationships with our banking partners.

By staying ahead of potential regulatory changes and positioning ourselves as responsible stewards of financial innovation, we can transform this wild card into an opportunity. Our ability to adapt and thrive amid uncertainty will be the key differentiator for success in the evolving FinTech landscape.

PROACTIVELY ADDRESSING REGULATORY SHIFTS, SECURITY CONCERNS **KEEPS FIRMS AGILE**

In the first half of 2024, we've seen a lot of changes in the financial services industry. And as we approach a tumultuous election, we're bound to see a lot more, especially in regulatory shifts, further economic instability and major fraud and security threats. As a provider of digital-first banking solutions to banks and credit unions, it's critical that we stay on top of the always-moving goal posts, ensuring we're helping them provide a great digital experience to their customers and members.

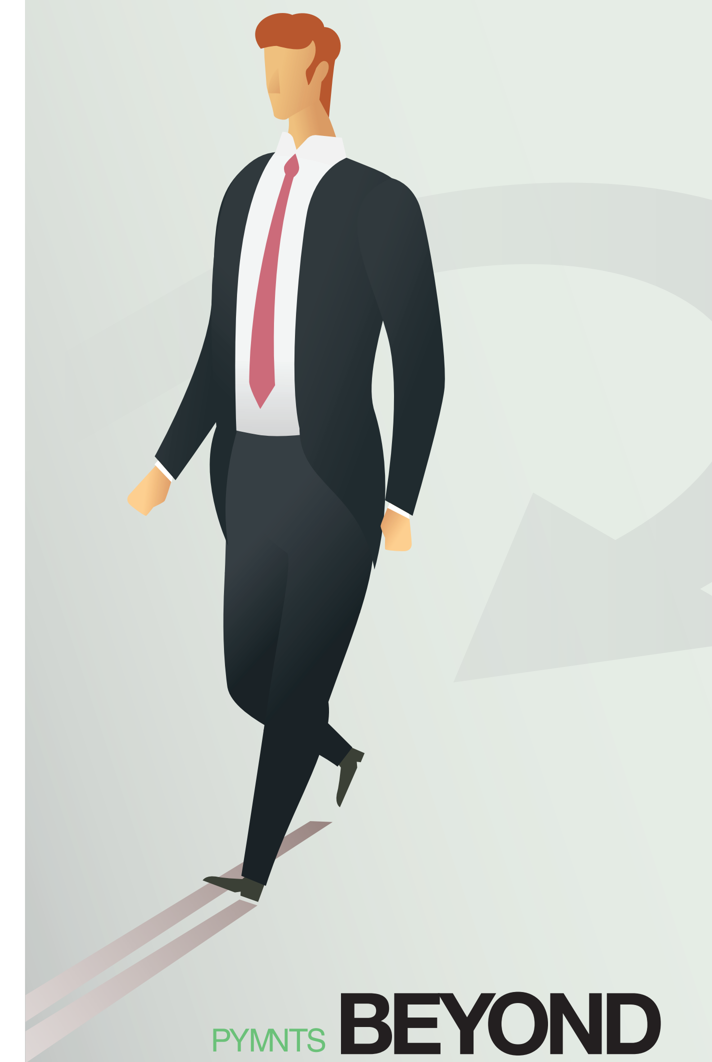
Regulatory changes are a constant wild card as governments and regulatory bodies continue to update and refine the rules around data privacy, cybersecurity, regulations and more. These changes can present challenges, such as increased compliance costs and operational adjustments, but they can also create opportunities to innovate and offer more secure and compliant services. Staying ahead of regulatory trends and proactively adapting to new requirements will be imperative to providing financial institutions with leading digital solutions.

Economic instability is another unpredictable factor that could significantly impact our business. Global economic shifts, such as interest rate changes, inflation or a potential recession can alter consumer behavior and the requirements they have of their digital solutions. In times of economic downturn, banks and credit unions will see an increase in digital-first banking solutions as customers and members seek to manage their finances more carefully. Conversely, economic growth can drive demand for a broader range of financial products and services as buying power shifts. By remaining agile and responsive to these economic shifts, we can help our clients capitalize on emerging opportunities while mitigating risks.

Staying ahead of regulatory trends and proactively adapting to new requirements will be imperative to providing financial institutions with leading digital solutions.

Lastly, fraud and security are massive and ever-present concerns for us and our bank and credit union clients. As financial institutions expand their digital offerings and user base, the risk of cyberattacks, fraud and data breaches grows. A significant security breach could

Balancing these changes — regulatory shifts, economic instability and security threats — requires a proactive approach and a commitment to continuous improvement. While we cannot predict every twist and turn, by staying agile, remaining focused and providing leading digital-first banking solutions, we help set our bank and credit union clients up for sustainable success and growth.



PYMNTS **BEYOND** THE HORIZON

How to Identify **Unexpected Threats** That Could Impact Your Business

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