

NEO

White Paper

Beyond banks: The rise of fintech solutions in the Payment Service Provider industry

Executive summary

While the Payment Service Provider (PSP) market has seen significant growth and innovation over the past two decades, the relationship between PSPs and traditional banking partners has remained fraught with challenges.

Despite the rapid advancement of digital payment technologies, PSPs continue to face barriers that hinder their operational efficiency, generate regulatory risks and affect their ability to meet market demands.

With this in mind, we surveyed 100 c-suite professionals at PSPs across Europe to understand the challenges they face in their banking relationships and their strategies for overcoming them. The survey uncovered these trends:

- **Bank dependency creates operational and regulatory challenges:** PSPs are still heavily dependent on traditional banks, leading to slow processes, opaque fees, and frequent account-related issues that hinder operational efficiency.

- **Technology integration gaps:** The outdated systems of traditional banks create significant challenges for PSPs, limiting their ability to innovate and seamlessly integrate advanced payment technologies.

- **Cross-border payment challenges:** PSPs face significant difficulties with cross-border payments, including slow transaction times, hidden fees, and complex currency conversion processes, which traditional banks are often unable to address effectively.

- **Growing shift to alternative partners:** A significant number of PSPs are exploring partnerships with fintech providers and EMIs to bypass the limitations of traditional banks, seeking faster onboarding and better cross-border payment capabilities.

- **Need for transparency and speed:** PSPs are increasingly demanding transparent fee structures, faster processing times, and holistic payment solutions, which traditional banks are struggling to provide.

- **The emergence of better alternatives:** Fintech solutions are emerging as viable alternatives to traditional banking, offering PSPs enhanced efficiency, integrated platforms, and the ability to meet the growing demands of the digital payment landscape.

With the rapid pace of digitalisation in the payment industry, PSPs cannot afford to be held back by slow, costly, and outdated banking processes. There are, however, better alternatives emerging. Fintech providers are offering PSPs more efficient solutions, including faster processing times, transparent fee structures, and integrated platforms that provide a unified view of payment and cash flow activities.

By partnering with these innovative financial institutions, PSPs can overcome the limitations of traditional banks and continue to drive the evolution of the digital payment landscape.

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Section 1: PSPs relationship with traditional banks

PSPs rely on a small pool of banks

Our research reveals that PSPs rely on a limited number of traditional banking partners, on average three banks.

Worryingly, 14% rely on a single traditional bank and 55% of PSPs maintain partnerships with two to three traditional banks, while 30% have four to five banking partners and only 1% have partnerships with more than five traditional banks.

A PSP relying on fewer than three banks is in a precarious position, especially since safeguarding banks typically don't make up the majority of this number. As a result, **69% of fintechs face significant risk if their safeguarding partner were to close.**

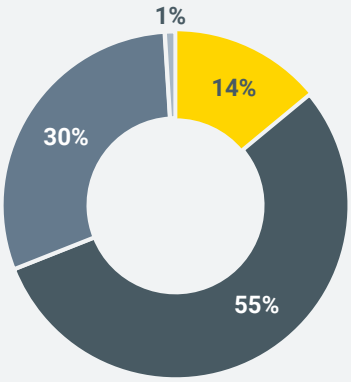
The trend of limited banking partners is particularly prominent in Germany, where 26% of PSPs rely on just one traditional bank, 63% have relationships with two to three traditional banks and only 11% with four to five banks.

CEOs generally report a broader range of traditional banking partners with 57% indicating that they work with four to five banks. In contrast, treasurers are more conservative in their approach with 58% having relationships with two to three traditional banks.

Relying heavily on a limited number of banking partners can expose PSPs to significant risks. Default risk is one: The collapse of banks such as Silicon Valley Bank and First Republic Bank in 2023 is a stark reminder that no financial institution is immune to failure. Bank policy changes present a significant risk for PSPs and their clients. Frequent account closures by banks jeopardise the core operations of PSPs, leaving them unable to safeguard client funds—a critical regulatory obligation—thereby disrupting business continuity. The challenge arises when PSPs have limited options, as many banks are unwilling to support the industry.

Therefore, it's crucial for PSPs to diversify their banking relationships to avoid the pitfalls of concentrating all their resources with just a few institutions.

While having a broad network of banking partners offers safety in numbers and reduces the risk of liquidity issues, operational disruption or erosion of client trust, it is also important to strike the right balance. Managing multiple banking relationships can increase operational complexity and require substantial resources to maintain. By carefully selecting and managing their banking partnerships, PSPs can optimise both security and operational efficiency.

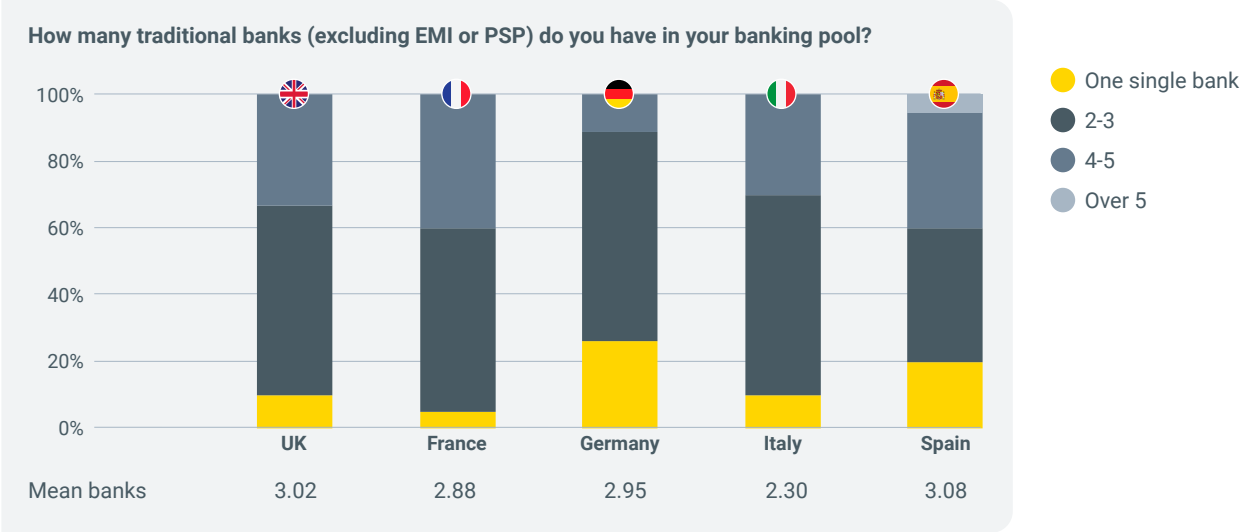


How many traditional banks (excluding EMI or PSP) do you have in your banking pool?

- One single bank
- 2-3
- 4-5
- Over 5

Mean banks 2.93

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PSPs require multiple services from their banking partners

PSPs rely on their traditional banking services to ensure smooth and efficient operations. These services are not just auxiliary but form the backbone of their ability to deliver core offerings. According to our research, this includes:

- **Transaction processing (40%)** - This service is vital as it enables PSPs to handle large volumes of payments swiftly and securely and the seamless processing of transactions directly impacts the customer experience.
- To do so, PSPs employ various structures for client transactions:
  - **42%** use pooled client accounts
  - **32%** utilise Nostro accounts under the bank's BIC code
  - **26%** opt for Nostro accounts under their own BIC code
- **Technology services (38%)** – PSPs require advanced technology services such as digital platforms, APIs, and other solutions that help them integrate with banking systems, ensure compliance and enhance service delivery.
- **Liquidity management and investment of balances (35%)** - Effective liquidity management is essential for PSPs to maintain operational stability and optimise the use of funds. This service helps them manage their cash flow, reduce risks and maximise returns on idle funds.
- **Safeguarding accounts (26%)** - This is a regulatory requirement under the Payment Services Regulations (PSR) and the Payment Services Directive 2 (PSD2), which mandates the protection of client funds to prevent misuse and ensure financial security. Safeguarding accounts is therefore crucial for maintaining compliance and building trust with customers.
- **Foreign exchange services (25%)** - As PSPs often operate in multiple currencies and cross-border markets, access to efficient and competitive foreign exchange services is essential for managing currency risk and facilitating international transactions.
- **Treasury rebalancing (24%)** - This involves managing the allocation of funds across various accounts and ensuring that adequate liquidity is maintained to meet operational needs. Banks support PSPs in optimising their treasury functions, aiming to help them achieve better financial control and efficiency.

There is a dependency on banks for a broad range of services that are essential not only for delivering reliable payment solutions to their customers but also for ensuring compliance with regulatory requirements.

However, despite the need for these services, significant problems arise when PSPs work with their current banking partners, according to our research.

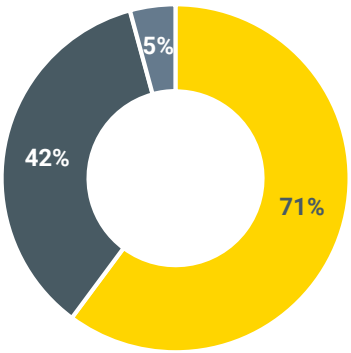
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Section 2: The problems of working with traditional banks

Account closures and restrictions

Worryingly, **95% of PSPs have experienced their bank accounts being closed or restricted** at some point. Of these, 71% reported that the closures or restrictions occurred with minimal transparency or explanation from the bank.

These account restrictions often occur without clear communication, creating operational disruptions and uncertainty for PSPs. This lack of transparency not only hampers immediate operations but also complicates future planning and risk management. They also represent a potential breach of regulatory obligation if the PSP is left with no other bank to safeguard clients' funds.



Have you ever had your bank account closed or restricted by a bank?

- Yes – with little transparency as to why
- Yes – with stated reason
- No

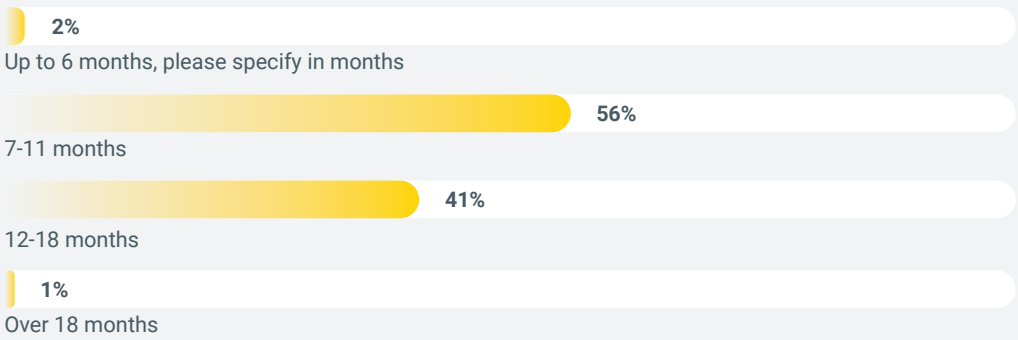
Yes (Net) 95%

Lengthy account opening processes

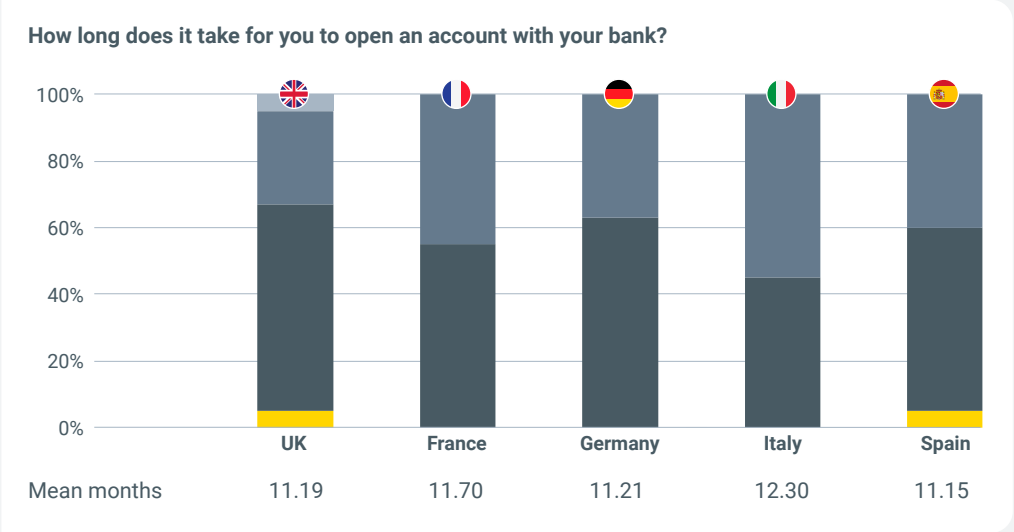
Opening a bank account with traditional banks across Europe is a notably prolonged and cumbersome process. On average, it takes PSPs **11.5 months** to open a new bank account. In Italy, this process is even more cumbersome, taking an average of 12.3 months.

Only 2% of PSPs report that their account opening process took six months or less. Conversely, 41% experience delays of 12 to 18 months and 1% face delays exceeding 18 months. These significant delays impede PSPs' ability to scale and operate efficiently in international markets, affecting their competitive edge and growth potential. This is even worse for new PSPs as having an account is required by regulators at the application stage.

How long does it take for you to open an account with your bank?
Mean months: 11.51



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Banking headaches

Our research also reveals the most pressing pain points identified by PSPs in their dealings with traditional banks:

Lengthy onboarding processes: 44% of PSPs cite lengthy onboarding as a major issue. The extensive Know Your Customer (KYC) procedures and other compliance checks delay the time-to-market for new services, impacting revenue and competitive positioning.

Incompatibility with crypto exchanges: 29% of PSPs find it challenging to work with crypto exchanges due to their banking partners' restrictions. Banks' hesitance to engage with the cryptocurrency market due to regulatory uncertainties limits PSPs' opportunities to participate in this growing sector, potentially affecting their capacity to innovate. Given the rapidly increasing usage of stablecoins as a mean to circulate money fast, this is a concern.

Risk of account closure: 25% of PSPs are concerned about the risk of account closure, which can disrupt operations, freeze assets and damage client relationships. Sudden account closures force PSPs into crisis management and leave them scrambling to find alternative providers and it can take months to be onboarded.

Legacy technology: 23% cite legacy technology as a significant pain point when working with traditional banks. Outdated systems can lead to inefficiencies, slower transaction processing times, and limited integration capabilities, making it difficult for PSPs to offer the seamless, real-time services that their customers expect.

Poor customer support when payments are blocked: 19% of PSPs experience poor responsiveness and limited customer support from banks when payments are blocked. Delays in addressing blocked transactions can cause substantial disruptions, leading to dissatisfied customers and potential revenue loss. Inadequate support during these critical times not only impacts the PSPs' operational efficiency but also damages their reputation and the trust of their clients.

Unclear risk appetite statements and AML/KYC processes: 19% report that unclear risk appetite statements and cumbersome Anti-Money Laundering (AML) and Know Your Customer (KYC) processes are significant pain points when dealing with banks. These vague or inconsistent guidelines create uncertainty and can lead to delays in onboarding and processing transactions, hindering PSPs' ability to operate efficiently and comply with regulatory requirements. The lack of clarity in risk appetite statements makes it difficult for PSPs to align their own risk management practices, often resulting in additional compliance burdens.

Restricted access to USD clearing: 18% of PSPs identify restricted access to USD clearing as a major pain point when collaborating with banks. Limited access to USD clearing channels can significantly impede a PSP's ability to process international transactions efficiently, especially in markets where the U.S. dollar is the dominant currency for cross-border payments. This restriction not only affects transaction speed and reliability but also limits the PSPs' competitive edge in offering seamless global payment solutions.

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Cross-border payment headaches

PSPs heavily rely on banks to facilitate cross-border payments, given banks' established infrastructure and access to international networks. This dependence allows PSPs to process transactions across various currencies and regions, leveraging the banks' clearing and settlement capabilities, but, as our research reveals, it also comes with challenges:

Limited capabilities of banking platforms: 31% of PSPs report that many banks lack advanced features such as real-time payment processing and multi-currency handling, which are critical for efficient cross-border transactions.

Reconciliation of flows for receivers: 26% of PSPs find reconciling cross-border payment flows challenging due to multiple intermediaries, currencies, and fees. This complexity leads to discrepancies and time-consuming resolution processes.

Reporting of transactions in ERP or TMS: 24% experience difficulties in integrating payment data with Enterprise Resource Planning (ERP) or Treasury Management Systems (TMS), leading to inconsistent data and an increased reporting burden.

Limited payment tracking capabilities: 21% of PSPs report that limited payment tracking capabilities are a significant pain point. Without robust tracking systems, PSPs struggle to monitor the status and location of international transactions, leading to delays in processing, difficulty in addressing customer inquiries, and a lack of transparency. This can create frustration for both PSPs and their clients.

A lack of support from cross-border payment experts: A fifth of PSPs (20%) struggle with a lack of expert customer support. Effective handling of international transactions often requires specialised knowledge of diverse regulatory environments, currency exchange complexities and local market conditions. This absence of expert guidance can lead to errors and delays, negatively impacting the overall efficiency and reliability of cross-border payment services.

Issues with unfair pricing: A fifth of PSPs (20%) believe unfair pricing is a key pain point, often arising from opaque fee structures and hidden charges that can dramatically inflate the cost of international transactions. Such unfair pricing practices not only erode trust but also strain the financial efficiency of PSPs, who may need to absorb these costs or pass them on to their customers.

Slow execution speeds: 19% cite slow execution speeds as a major pain point when utilising banks for cross-border payments. This delay often stems from outdated banking infrastructure or inefficient processing systems, which can result in extended transaction times and increased operational costs. For PSPs, this slow pace not only hampers their ability to provide timely services to their clients but also affects overall customer satisfaction and competitiveness in the market.

No control over shortfalls deducted by correspondents: 16% of PSPs highlight a lack of control over shortfalls deducted by correspondent banks as a significant pain point in cross-border payments. This issue arises when correspondent banks deduct unexpected or unaccounted-for fees from transactions, leaving PSPs and their clients with reduced amounts than anticipated. The lack of transparency and control over these deductions can lead to financial discrepancies and disputes, undermining trust in the payment process.

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Regional differences

Interestingly our research found some quite notable regional differences. In the UK, the reconciliation of flows was a particular pain point with 43% highlighting it as the primary concern.

In Italy, PSPs said limitations of banking platforms were the most significant issue, affecting 40% of respondents while in France, reporting transactions in ERP or TMS was the largest problem, affecting 40%.

In Spain, challenges with payment tracking capabilities and unfair pricing affected 30% of PSPs. While in Germany, three clear issues emerged as the most pressing, two of which were mentioned above (32% for issues with banking platform capabilities and 32% for reporting in ERP or TMS), while a lack of support from cross-border payment experts was an issue for 32%.

Cross-border payments will become an increasing issue for PSPs due to EU instant payments coming into effect. The first set of obligations must be complied with by 9 January 2025.

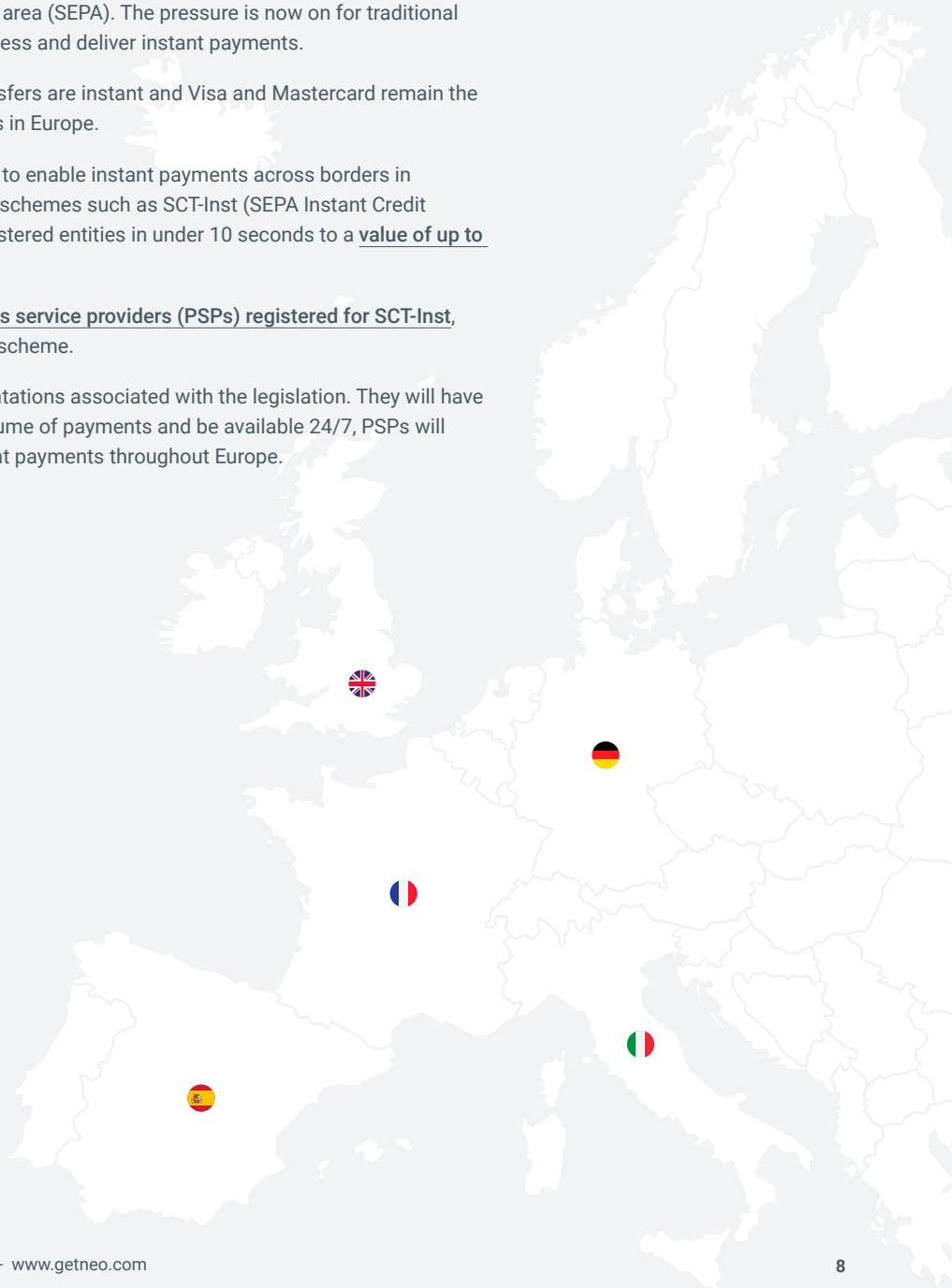
The legislation paves the way for a seamless, real-time payment experience for consumers and businesses across the single Europe payments area (SEPA). The pressure is now on for traditional banks to update their systems so they can process and deliver instant payments.

Currently, only **11%** of the EU's euro money transfers are instant and Visa and Mastercard remain the most **prevalent payment** options for consumers in Europe.

For some time now, the technology has existed to enable instant payments across borders in the Single European Payments Area (SEPA) via schemes such as SCT-Inst (SEPA Instant Credit Transfers). This permits transfers between registered entities in under 10 seconds to a **value of up to €100,000**.

Only 56% of Europe's more than 5,500 payments service providers (PSPs) registered for SCT-Inst, and just 14% of all transfers by value using the scheme.

For banks, there are a lot of technical implementations associated with the legislation. They will have to update their systems to cope with a high volume of payments and be available 24/7, PSPs will have to look for partners who can ensure instant payments throughout Europe.



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Section 3: Movement towards EMI/PSP solutions

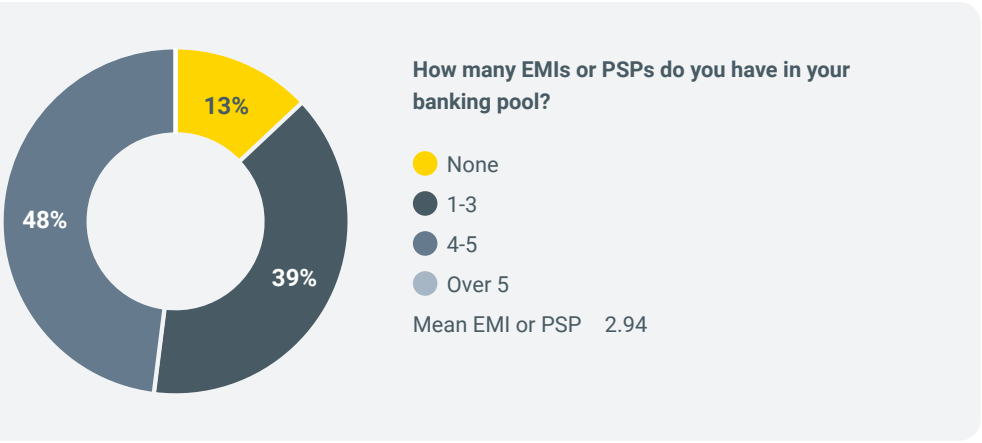
PSPs are increasingly incorporating EMI and PSP solutions into their banking ecosystems as they seek better alternatives to traditional banking partners.

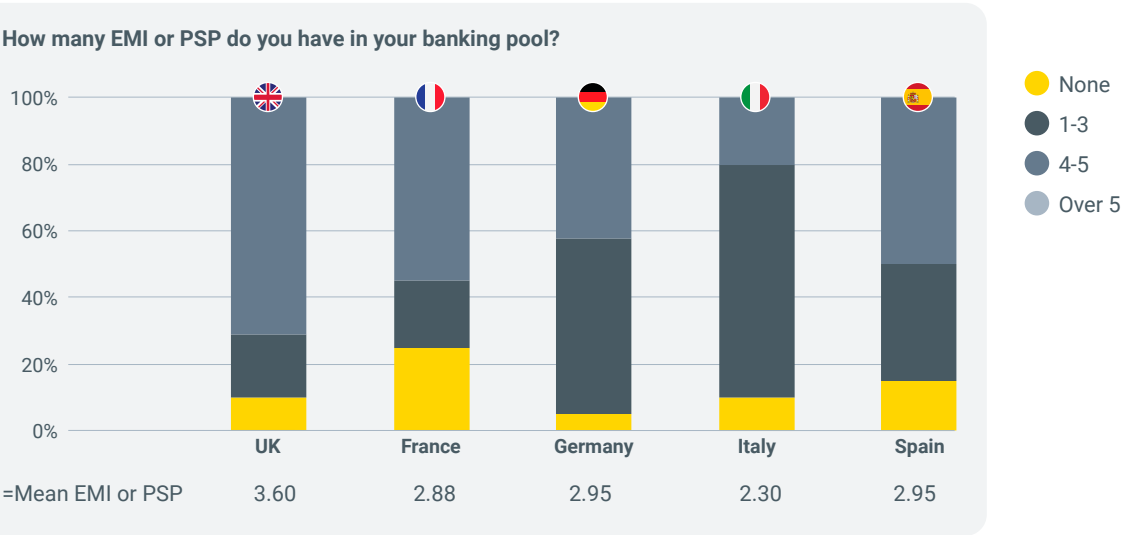
On average, PSPs have three EMI/PSPs in their banking pool. This figure increases to four in the UK, where fintech adoption is particularly robust, and decreases to two in Italy.

Only 13% of PSPs do not have an EMI/PSP within their banking pool, highlighting the widespread integration of these solutions.

39% of PSPs have one to three EMI/PSPs, while **48% maintain relationships with four to five EMI/PSPs**, demonstrating a strong preference for diversified fintech partnerships.

This shift toward EMI/PSP solutions signifies a broader trend away from reliance on traditional banks. PSPs are increasingly choosing fintech solutions due to their speed, technology and cross-border capabilities.

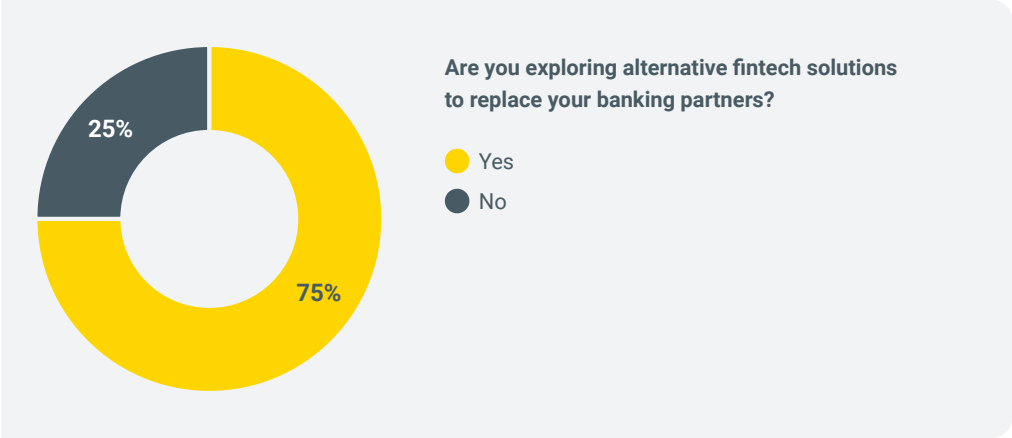


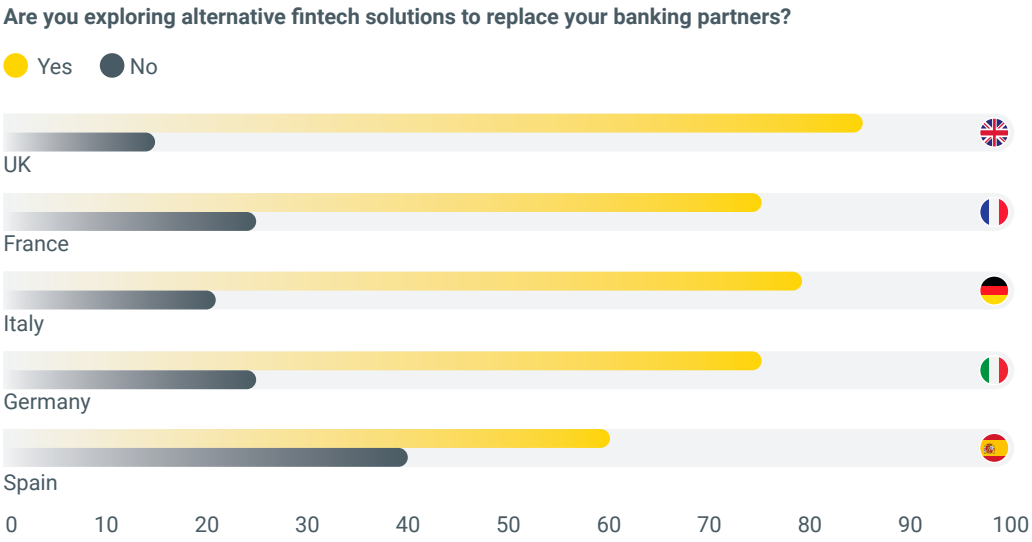


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Fintech alternatives gaining momentum

The exploration of fintech alternatives to traditional banking partners is gaining momentum among PSPs. Three-quarters **(75%) of PSPs are actively exploring fintech solutions as potential replacements for traditional banks.** This exploration is even more pronounced in certain regions, with 86% in the UK and 79% in Germany.





When selecting a fintech partner, the following factors are most important to PSPs:

- **Security of funds (31%):** Ensuring the safety and security of client funds is the top priority for PSPs. This is especially critical given the regulatory scrutiny and operational risks associated with managing large volumes of transactions. Nearly half (48%) of UK PSPs said this was their biggest priority, reflecting high regulatory standards in the country.
- **Speedy onboarding (26%):** The ability to quickly onboard new partners and services is crucial as it directly impacts their time-to-market and operational efficiency. In France, 40% stated speedy onboarding was the most important feature.

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- **Low, transparent fees (26%):** Transparent and competitive pricing is a significant factor, as it affects the cost-effectiveness of operations and the ability to offer competitive pricing to clients. In Germany, 42% emphasise low, transparent fees, likely driven by a focus on cost-efficiency.
- **Large number of available currencies (24%):** Access to a wide range of currencies is essential for PSPs operating in multiple international markets, enabling them to better serve a global client base. In Italy, 30% prioritise access to a large number of currencies, indicating the importance of multi-currency capabilities for Italian PSPs.
- **Open communication with compliance teams (22%):** Clear and accessible communication with compliance teams helps PSPs navigate complex regulatory landscapes and ensures smoother operational processes. In Spain, 35% value open communication with compliance teams, reflecting a need for clarity and support in navigating regulatory requirements.
- **API connectivity (20%):** Robust API connectivity allows for seamless integration with existing systems and enhances the flexibility and scalability of fintech solutions.
- **Quality customer service (19%):** Access to expert support, particularly in payment-related issues, is a critical component of maintaining high service levels and customer satisfaction, especially when something goes wrong.

The adoption of EMI and other PSP solutions by PSPs represents a significant shift in the financial services landscape. As traditional banks struggle to meet the evolving needs of PSPs, fintech solutions are emerging as attractive alternatives due to their speed, flexibility and technological advantages.

The ongoing exploration and adoption of these solutions is reshaping the market, driving innovation, and setting new standards for efficiency and customer service.

As this trend continues, understanding the diverse needs and priorities of PSPs across different regions will be crucial for fintech providers looking to capture market share and build lasting partnerships.

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Conclusion

Over the past two decades, PSPs have evolved from facilitators of basic payment processing to key players in the broader financial ecosystem, offering a wide array of services that meet the increasingly complex demands of merchants and consumers alike.

However, as PSPs have grown in sophistication, so too have the challenges they face when it comes to banking. They risk sudden account closures with little to no transparency, high, often hidden fees, slow onboarding, dealing with legacy technology and poor customer service.

These challenges underscore the limitations of traditional banking models in supporting the dynamic and fast-paced nature of the PSP industry.

To tackle this issue, PSPs are looking to alternative approaches offered by innovative fintech solutions. EMIs and other PSP solutions are being adopted to ensure faster onboarding, more efficient cross-border capabilities and enhanced API connectivity but also for their ability to meet the stringent security and compliance needs of PSPs.

PSPs are actively diversifying their banking pools to include multiple EMI and other PSP partners, with a significant number of them exploring fintech options to replace traditional banks altogether.

As this trend accelerates, it is clear that the future of the PSP market will be shaped by the ongoing adoption of cutting-edge financial solutions that prioritise flexibility, efficiency and customer-centric service.

Fintech providers that understand and address the diverse needs of PSPs across different regions will be well-positioned to capture market share and establish themselves as critical partners.

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How Neo can help

Neo is the all-in-one platform for PSPs. Pay, collect and exchange all in one place.

Our platform has been designed for PSPs and EMIs to enable them to process payments and collect them on behalf of your clients. We provide access to a large number of clearing currencies including USD and our industry-specific compliance team helps streamline execution.

Other features include:

A multi-currency IBAN

- Set up a European IBAN in a matter of days, not months
- Pay and collect in 24+ currencies including USD, EUR and GBP
- Access more than 10,000+ banks via SWIFT International or SEPA SCT for euros
- Reach more than 120 countries
- Reduce costs with no hidden fees, spread, commissions or auto conversions
- Track your payments in real-time with Swift GPI

Manage foreign exchange risk

- Buy and sell currencies at wholesale prices
- Use forwards to hedge your foreign exchange exposure on future receivables, payables and balance sheet items
- Get liquidity from a large pool of banks and brokers
- Best execution through multi trade facility provided by 360T

Solution tailored for PSP industry

- Treasury rebalancing accounts
- Client's money accounts
- USD Dollar account
- No auto conversion of flows into your main currency for ease of reconciliation
- Dedicated PSP compliance team
- Swift GPI tracking for real time status of funds
- Counterparty management system to streamline request for information
- Ramp on and off with major regulated crypto exchanges

Work efficiently using the Neo platform

- Unlimited wallets to store your funds
- Role and permission for each of your users
- Comprehensive documentation center
- Connect your NEO account to your ERP using our API

Safe

- Supervised by the National Bank of Spain and the CNMV
- Safeguarding of funds with top tier banks
- Client's funds 100% available at any time
- ISO27001 certified
- RSA 2028 encryption

Professional client support

- Team of cross-border experts trained on SWIFT
- Highly responsive support
- Error preventive approach

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About Neo

Neo is the first European fintech that offers MiFID II-compliant investment services and PSD2-compliant payment services from a single platform.

It offers a better way to manage international treasury departments through its all-in-one platform that provides FX corporate risk management, international, multi-currency bank accounts, cash-flow management, payments data analytics and more.

Neo has evolved from a platform offering FX trading to becoming a one-stop-shop for PSPs and businesses across the globe, working with more than 300 corporates across 28 countries and more than 8,000 banks are connected to its Bank Identification Code (BIC) on the SWIFT network.

It saw cleared volume double in just under a year, reaching over €7 billion in 2023 alone, reflecting growing demand from businesses for alternatives to traditional banks.

Neo offers an International Bank Account Numbers (IBAN) through which businesses and PSPs can send and receive payments in 25 currencies.

Its wallet architecture makes it easy for firms to organise their funds and store multiple currencies, ready for making rapid payments or exchanging currencies, revolutionising the way they transact.

Neo has also put a strong focus on state-of-the-art client support by lining up a team of highly skilled professionals who support clients with their cross-border operations.

For more information, please visit **www.getneo.com** or get in touch via: **www.getneo.com/contact**

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