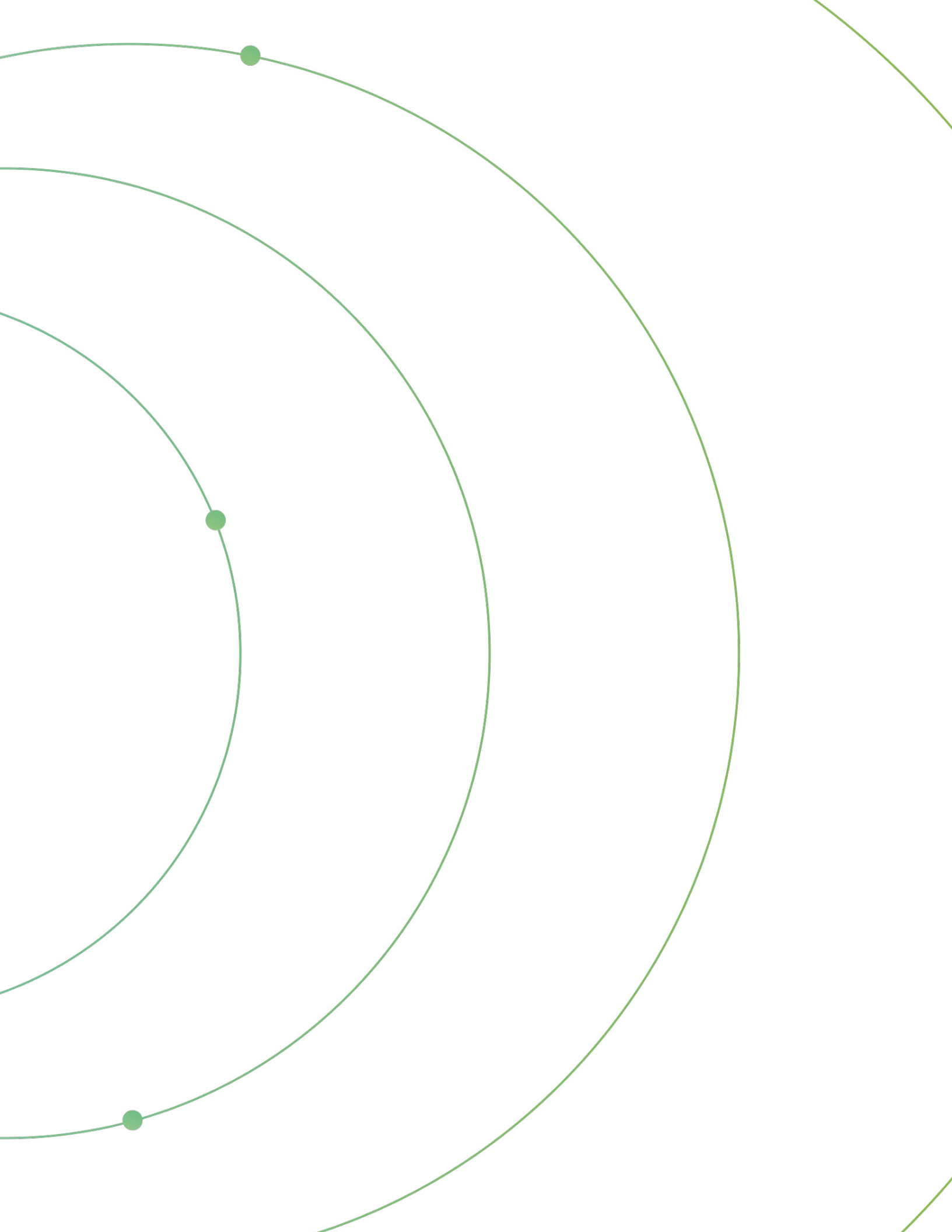




Next-gen payments landscape: A treasurer's perspective

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Introduction: The evolving payment landscape

As a crucial aspect of the treasury function, the fluid movement of cash highlights the ever-changing facets of liquidity, security, accessibility and real-time visibility within an organization. In today's fast-paced environment, there is an increasing demand for faster and more secure payment transmissions. Beneficiaries are looking for quicker compensation and comprehensive confirmation throughout the payment process. Overall, both payers and payees desire transparency regarding their funds and the timing of their arrival.

The payment ecosystem is turning to digital assets to actively address these issues to ensure a more streamlined process.¹ The implementation of accelerated settlement processes and the introduction of innovative products, such as cryptocurrency stablecoins, have shown the potential for lower costs and faster settlements. As is common with new developments that provide both domestic and international solutions, certain challenges have emerged.



Current challenges within the cross-border payment ecosystem

- 1. Delay of funds.** When sending and receiving payments, currently there exists a period of days in which the transaction has not reached the beneficiary's account. Although there are ways in which payments can be made and received on the same day, this in turn greatly increases the costs. The ability to settle same-day cross-border payments in many cases isn't available, as there are intermediary banks that need to be involved depending on the respective jurisdiction of the initiator and the receiver. Furthermore, some banks may lack the capability to perform certain functions efficiently, thereby impacting cost-effectiveness, which results in delayed settlements.
- 2. Regulatory impacts of cross-border payments using different currencies.** Some currencies are easy to acquire in the marketplace but there are instances where settlement of invoices, vendor payables, etc. require another currency, harder to acquire, to be utilized. This may increase operational inefficiencies, leading to increased costs and foreign exchange risk exposure. Regulatory compliance is a factor that affects how and what currencies can be utilized in this process, especially when sanctions are placed on countries.
- 3. Increased costs for security, fraud and cybercrime protection when utilizing online payment services.** The impact from a breach can have financial and operational implications, however the largest damage could be to an organization's reputation. Utilizing existing payment rails with well-established and reputable financial institutions still bears settlement risk as many organizations are enhancing their platforms to accommodate new technologies. This risk is further exacerbated by the technological disparity in payment security protocols between financial institutions, where one party has more advanced security measures compared to the other. These challenges are prompting global companies to find new ways to handle payment transactions.

Using digital payments to increase efficiency and transparency

As global organizations continually seek more efficient ways to move money, stablecoins have emerged as a transformative solution. In recent years, stablecoins have increasingly defined a new medium for global fund transfers by addressing long-standing challenges in traditional methods. They offer significant advantages, including lower costs for cross-border payments, faster settlement times, and improved transparency and control over the movement of money. Stablecoins are distinct from other digital assets because they are secured by underlying fiat high-quality liquid assets—providing both senders and receivers with peace of mind—that essentially eliminates their volatility and substantially reduces the issuer risk. Coins such as USDC, USDT and EURC are now widely accepted by individuals and businesses alike, thanks to their ability to facilitate instant settlement and significantly reduce transaction fees.

“Stablecoins will enable instant payments 24/7 globally at low fees. This will reduce costs of cross-border payments by up to 80% and help enterprises unlock working capital as settlement times decrease from two to three days in average to minutes. With clear regulatory frameworks on the horizon in the U.S. and already established in Europe it is time to prepare integrating stablecoin payments into corporate payment processes.”

Bernhard Schweizer
Head of SAP's Digital Currency Hub



Bitcoin, which emerged after the financial crisis of 2008, has evolved from a niche concept into a significant asset class valued at over \$2 trillion, following a typical four-year cycle. Initially seen as a fringe idea, bitcoin has gained widespread acceptance and is now utilized in various ways, including payment method, collateral for mortgages, general loans and investment strategies. Organizations are increasingly recognizing bitcoin's potential as an investment asset. Its decentralized nature offers innovative opportunities for investing, hedging and trading, challenging traditional economic frameworks. By incorporating bitcoin into their balance sheets, institutions can explore possibilities that were previously unattainable within the conventional financial system. Its influence is rapidly expanding globally, with individuals and nation-states alike adopting it to suit their investment strategies, providing valuable insight into the future landscape of global commerce.

Internal: payment considerations

Increasing acceptance of tokenization of tangible and intangible assets could transform the way common transactions are carried out for entities, governments, and consumers globally.²

Digital assets can revolutionize the internal payments landscape by providing innovative and efficient alternatives to traditional methods. Traditional methods can sometimes involve lengthy procedures and multiple intermediaries, leading to increased costs and potential delays. Digital assets, however, can streamline this process by enabling peer-to-peer transactions on a global payment scale. For instance, corporates can leverage blockchain technology and digital assets to raise capital through initial coin offerings or security token offerings and then send and receive these funds through instantaneous payments between parents and subsidiaries within an organization. These transactions can be executed quickly and cost-effectively, making the funding and payments process more accessible. Note though that however “easy” a payment structure can be, regulatory and accounting rules and considerations must always be involved.

Furthermore, **in-house banking** can benefit immensely from digital assets in terms of payments. Currently, processing payments within a company, especially a multinational one, can be complex and time-consuming due to varying currencies, banking systems and regulations. However, by adopting a unified digital asset for internal transactions, companies can reduce these complexities.

This may likely allow for instant and frictionless transfers between departments or subsidiaries. Furthermore, the transparent nature of blockchain technology, which underpins many digital assets, determines a clear, immutable record of transactions, simplifying reconciliation and enhancing financial control and standardization.

Additionally, **intercompany transactions** often present challenges in terms of currency exchange, timing differences, and reconciliation. By using digital assets, these transactions can be facilitated on a common platform, using a common currency, which can significantly reduce the associated complexity and cost. Payments can be made instantly, drastically reducing timing differences, and the need for currency conversion can be negated if entities adopt the same digital asset. Foreign exchange translation exposures could be mitigated, and the need to incorporate vanilla instruments or hedging mechanisms could be reduced. This can even be taken a step further through automation of the reconciliation process for intercompany transactions. The blockchain's immutable ledger provides a detailed transaction history, making reconciliation less onerous while facilitating greater transparency and accountability.

Benefits

Considerations for treasurers who want to utilize digital assets for internal payments

- Increased operational efficiency
- Real-time reporting
- Precise funding
- Decreased transaction fees

Implications

Risk implications for treasurers interested in utilizing digital assets for internal payments

- Untested waters
- Choosing which digital assets to leverage
 - Each has different implications specific to the asset
 - Associated risk/volatility

External: payment considerations

With tokenization and programmable money, transactions can be executed instantly, anytime, and from anywhere. They can be automated based on certain triggering events, with transparency and control built in. Rather than having funds tangled up in payment channels, they can be deployed under working capital strategies and tapped at the moment needed.³

Not only do digital assets have the potential to enhance the internal payments landscape but also external payments and collections to and from various vendors and counterparties. In today's dynamic and geopolitical climate, organizations are starting to look for more innovative ways to facilitate their **accounts payables** and **accounts receivables** in a timely and effective manner. Traditional methods for payments and collections can sometimes be a lengthy process, involve multiple intermediaries, require currency conversions, and may adversely impact the cash conversion cycle for a business's core operations. For accounts payable transactions, corporates can leverage automated smart contracts using digital assets to time exactly when they'd like to pay vendors instantaneously on an auditable blockchain. Smart contracts associated with cryptocurrencies can be used as a substitute for more traditional long-term contracts with vendors to secure goods and services. This can be easily tracked in real time and can improve relationships with external vendors for cross-border payments. Through the use of automated smart contracts, companies can efficiently monitor the collections and receivables via automated processes. This can feed into an organization's ERP and provide real-time visibility of working capital liquidity. The viable use cases for leveraging automated, digital smart contracts and digital assets into the cash conversion cycle for accounts payables and receivables offer the potential to be powerful tools in managing a treasury function's working capital liquidity.

Additionally, digital assets can potentially be used to mitigate currency payment risk. Many global corporates have exposures from **foreign currency**. Traditionally, to mitigate foreign currency risk, organizations may use various hedging mechanisms. However, these instruments not only become costly, but can also be difficult to track and report on from a financial reporting perspective. For example, if an organization has operations in 50+ jurisdictions, a complex value-at-risk analysis would need to be performed and tied to its inflow and outflow exposures. Corporates will need to perform comprehensive pricing and cost analysis, which will need to be negotiated with diverse banking counterparties. Tax teams will have to be involved throughout the process to facilitate compliance, and liquidity. This process is not only very time-consuming but can be costly and resource intensive.

As **digital assets evolve in cross-border payments**, organizations can use them for quicker, cost-effective fund transfers between jurisdictions. By converting local currency to stablecoins (e.g., tether) and utilizing blockchain, companies can simplify management of FX (foreign exchange) exposures, though depending on business needs, conversion back to government-issued fiat currency may still be needed. This real-time process diminishes the need for hedging instruments and aids in complex banking scenarios. Digital assets can diversify currencies for transactions; however, organizations should conduct risk assessments due to potential bias, volatility and liquidity issues.

Benefits

Considerations for treasurers who want to utilize digital assets for external payments

- Instantaneous processing
- Reduction in transacting inefficiencies
- Reduction in fraud risk
- Increased benefit to relationship management
- Real-time data access for conversions

Implications

Risk implications for treasurers interested in utilizing digital assets for external payments

- Potential inaccuracies in conversions/bookkeeping
- Interoperability challenges
- Volatility
- FX exposure

Another payment consideration: fraud

In today's fast-paced interconnected world, financial fraud continues to be a growing concern for corporations and consumers everywhere. Especially with the growth of digital payments. There are more methods for committing financial fraud—such as stealing hacked data from the dark web for credit card transactions, using Generative AI (GenAI) to scam personal information, and moving money between digital assets, digital wallets and fiat currencies to hide the source. Many other financial schemes are lurking in the digital underworld. In 2023, consumers and corporations reported losing over \$10 billion to fraud. This was the first time that fraud losses catapulted over the \$10 billion mark, and it represents a 14% increase when compared to reported losses in 2022.⁴ In 2024, consumers reported losing over \$12.5 billion to fraud, according to the US Federal Trade Commission. This represents a 25% increase from 2023.⁵ For many enterprises, the consequence of fraud can continue long after the fraud. Financial fraud is on the rise and depending on the nature of the fraud and its overall impact on the business, it can lead to public disclosures, legal proceedings and a decline in enterprise value.

Thankfully, new technologies and tools are being developed and deployed daily to combat and prevent the most destructive forms of financial fraud. On the forefront of modern technology's arsenal are **artificial intelligence (AI) and machine learning (ML)**. What is AI? Simply put, AI is the simulation of human intelligence by technology, based on the data the AI is trained on. AI technology enables computers and digital devices to learn, read, write, create and analyze. AI subset ML involves the process of using sample data to train computer programs to recognize patterns in datasets and behaviors with real-time speed. (Another subset of AI, GenAI can create new content based on the data it's trained on.) While AI has many applications across various facets of life, one of its most powerful use cases exists within the financial ecosystem. Bricks-and-mortar financial institutions have long used AI to do everything from predicting deposits to alerting customers when seemingly unusual activity takes place in their accounts. But what if it could do even more?

As institutions encounter challenges within traditional finance, they seek to deploy innovative tools and alternatives to maintain a competitive advantage against fraudulent activities. In the realm of **decentralized finance**, an advanced financial framework that utilizes emerging technologies to eliminate third parties and centralized entities from financial transactions, GenAI technology can serve as a crucial tool in combating fraud, safeguarding peer-to-peer financial transactions from potential threats.

Here are four common use cases for using AI tools to combat fraud in digital asset payments:

Data analysis	Gain insights into payment dynamics; identify patterns and high-risk wallet IDs or recipients
Real-time wallet monitoring	Continuously track cash inflows, outflows and other transactions to respond promptly to threats
Risk assessment	Assess the risk levels associated with different beneficiaries based on their wallet IDs and make recommendations for alternate payment scenarios
Automation	Use real-time monitoring to enable algorithms to scan recipient wallet IDs and execute payments automatically, saving time and limiting human error

AI-powered fraud prevention tools can be deployed predictively or in real time to keep payments and money movements safe in the blockchain. Data analysis through next-level AI infrastructure allows leading organizations to glean insights from their various fiat and non-fiat payment archetypes; thus, enabling them to make more informed decisions when deciding who to pay and how. In parallel, real-time wallet monitoring determines that incoming and outgoing transactions are being tracked and vetted as they occur—therefore providing an organization with the opportunity to respond effectively to real-time threats, like a potential ransomware attack. Continuous risk assessment is a foundational element of the business landscape and plays a role in business activities. Leading organizations consistently keep watch on entities they pay and ensure funds are going to the intended recipients.

Cross functional considerations for digital assets

Tax implications: The tax treatment of digital assets remains an intricate issue for corporations. Business taxpayers must consider both US tax rules and regulations as well as the rules and regulations in the other jurisdictions in which they operate. In utilizing digital assets for transfers among multiple jurisdictions, company treasurers need to consider how they are tracking the basis in their digital assets. They also need to consider the multiple ways these transactions can be viewed from a taxation perspective, including distributions, loans and intercompany transactions, with each transaction type having differing tax implications. For example, the distribution of non-fiat property, such as digital assets, could give rise to a gain or loss for US taxation purposes under Internal Revenue Code §311(b). Additionally, business taxpayers should consider the character and use of any digital assets to determine whether an asset is capital or ordinary in nature.

Intragroup transfers: Transfer pricing regulations are important for any corporation using digital assets for transfers within its group. The transfer pricing rules require that intragroup transactions be conducted at arm's length. Proper documentation and valuation of these transactions are needed to satisfy tax authorities—global, US or both depending on where the firm operates—that the pricing is fair and in line with market conditions.

Strategic considerations: Corporations might seek to structure their international digital asset transactions in a tax-efficient manner, considering the tax implications in the sending and receiving jurisdictions. This could involve selecting the favorable jurisdiction for holding and managing digital assets or timing the recognition of gains and losses to enhance tax outcomes.

Approaches to engaging with digital assets: Companies can either take a hands-off or a hands-on approach to digital asset engagement.

In the **hands-off approach**, companies use a third-party service provider to handle transactions related to digital assets. Essentially, the service provider converts the digital asset to traditional fiat currency, enabling the company to receive or make payments without directly dealing with the digital asset itself. This also allows companies to accept those payments and potentially

attract a new customer base without having to deal directly with the complexities of handling the digital asset. The primary advantages of this method are its simplicity and lower risk, as it allows companies to benefit from the use of digital assets without needing in-depth knowledge or infrastructure to manage them. However, the company is heavily reliant on the third-party service provider for compliance with regulations and security.

On the other hand, the **hands-on approach** involves a more direct interaction with digital assets. Companies using this approach often use a third-party custodian or integrate crypto management into their own systems. This approach allows a company to broaden its use of digital assets within its operations and treasury functions. The hands-on approach can potentially provide significant benefits, particularly for companies ready to go beyond just enabling digital asset payments. However, it also presents more technical issues to address, from managing digital wallets and tracking transactions to facilitating compliance with anti-money laundering and know-your-customer regulations.

In comparison, the hands-off approach is simpler and requires fewer resources, making it an excellent starting point for companies new to digital assets. However, the hands-on approach, while more complex and resource intensive, offers greater potential benefits and more direct control over those transactions.

Accounting implications: Under current GAAP accounting, cryptocurrencies are classified as long-lived intangible assets and are recorded at historical cost. They are tested periodically for decreases in value, which is expensed, but increases in value are not recorded. This results in cryptocurrencies being reported at the lowest value since their purchase. However, companies can report the fair value of cryptocurrencies in additional disclosures. The US Financial Accounting Standards Board (FASB) is shifting the valuation of cryptocurrencies to “fair value” under ASC 820. This will reduce impairment charges and require assets to be valued each accounting period to reflect their current fair value. The change simplifies the accounting process and potentially benefits those holding cryptocurrencies long term. The new FASB guidelines will be effective for fiscal years beginning after **December 15, 2024**.

Concluding thoughts

Exploration of digital assets can be daunting but provides exciting new innovative opportunities to solve recurring traditional finance challenges. There are many viable approaches to engaging asset utilization, and companies can either take a hands-off or a hands-on approach to engagement. The ability to mobilize cash allows treasurers to make decisions with greater confidence and take advantage of market opportunities that include advanced technologies such as blockchain and digital assets.



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At Deloitte, our people work globally with clients, regulators and policymakers to understand how blockchain and digital assets are changing the face of business and government today. New ecosystems are developing blockchain-based infrastructure and alternatives to create innovative business models and disrupt traditional ones. This is occurring across the financial landscape and in specific jurisdictions globally.

[Learn more at \[deloitte.com/us/blockchainanddigitalassets\]\(https://www.deloitte.com/us/blockchainanddigitalassets\)](https://www.deloitte.com/us/blockchainanddigitalassets)

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