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# GLOBAL PAYMENTS 2018

REIMAGINING THE CUSTOMER EXPERIENCE

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# INTRODUCTION

**P**AYMENTS REMAINS ONE OF the brightest spots in the financial services universe. Propelled by positive macroeconomic tailwinds, continuing technological advances, and expanding digital and non-cash mechanisms, payments businesses globally are on track to add \$1 trillion in new revenue through 2027. That outlook presents enormous opportunities for retail and wholesale payments institutions. Capitalizing on those opportunities, however, requires that banks and payments providers address lingering customer pain points.

The quality of the payments experience matters not only because of the strong projected growth across the transactions space but also because payments has an outsize influence on the banking relationship overall. Payments interactions are the most frequent point of customer engagement, giving banks, card issuers, and acquirers significant opportunity to shape customer perceptions, capture valuable data, and build loyalty. The relationships formed through those repeated interactions allow institutions to deepen their customer understanding, foster customer trust, and improve cross-selling and service, all of which significantly influence the overall shopping experience.

As a result, payments companies have begun to play a more active role across the buying journey, going beyond their traditional narrow role in enabling acceptance to forging customer-centric shopping interactions that reduce cart abandonment rates, create omnichannel customer experiences, and make credit easier for customers to access.

These factors, combined with favorable economics, mean that the payments space will be increasingly contested over the next decade. This will lead to a number of fundamental disruptions, including the following:

- **Leading retail banks will continue to reimagine the customer experience in payments.** They will do so by resolving remaining pain points and further personalizing the customer experience. As a result, digitally savvy first-mover banks will take share from slower-moving competitors.
- **Online payments providers will expand into offline acquiring.** A structural shift is occurring in shopping, from in-store commerce to e-commerce driven by digital marketplaces and online merchants. With pockets flush from the expected surge in e-commerce purchasing, providers of online solutions will take share from incumbents that have been slow to address customer pain points.

We also expect increasing concentration within the online acquiring space, as large acquirers with the capability to serve the dominant, internationally active online retailers take share from smaller ones. The growing dominance of Amazon-like marketplaces and Netflix-like digital content providers will accelerate this trend.

- **Consolidation across the broader payments space will accelerate.** Consolidation is picking up speed in the fragmented European acquiring and processing market. This trend will spread to the US, further condensing an already concentrated space, as providers look for ways to address deteriorating margins and fund new digital capabilities.
- **Rapidly developing economies (RDEs) will remain a hotbed of innovation.** We expect that many of the most disruptive payments business models will come from players in Asia and Latin America that target underserved populations and segments. Examples include GrabPay, Paytm, Ant Financial, and Tenpay.
- **Card payments will continue to prosper despite threats.** While card payments will continue to benefit from cash conversion tailwinds, the shift to real-time payments combined with the second Payments Services Directive (PSD2) in Europe and the United Payments Interface (UPI) in India have made account-based payments players more competitive. Rapidly growing merchant wallets such as Amazon Pay and MercadoPago and emerging peer-to-peer (P2P) schemes could raise the stakes further if they enter the account-based payments space. Card issuers and networks could counter that threat by promoting contactless payments and embracing initiatives that make authentication easier.
- **The US market will become an increasingly attractive target for attackers.** Large Chinese players, many of which are keen to expand abroad, are especially likely to target the US for its large revenue pools.
- **New digital categories will be on the rise.** Although e-retail is still the largest vertical in online commerce with 40% to 60% of spending, new digital categories are emerging. These include subscription services for digital content, a category that is expected to account for approximately 10% to 20% of the global e-commerce market. Other emerging categories include real-time, contextual commerce in social platforms (such as booking a restaurant from within Airbnb or by “searching nearby” on Google Maps) and expanded direct-to-consumer (D2C) offerings for products such as mattresses (Casper) or food (Blue Apron) that were once considered too large or experience-driven to buy without sampling.

Incumbents are in a vulnerable position because many have been slow to address long-standing customer pain points. To hold onto valuable customer relationships and take advantage of the strong growth

potential in payments, banks and providers must focus their strategy and resources on the following:

- **Improve the consumer payments experience.** Providers focused on the retail market must make both e-commerce and the physical point of sale (POS) friction-free. That requires redesigning the online buying journey, innovating smarter authentication standards, and promoting contactless payments to facilitate smoother and faster interactions.
- **Provide merchants with integrated and omnichannel payments.** Merchants are looking to transaction providers for plug-and-play capabilities that make it easier to incorporate payments systems and functionality within their own operations. This requires merchant acquirers to invest in creating a better buying experience and update their go-to-market models.
- **Rethink the wholesale business model to address treasurer needs.** Corporate treasurers face an expanding remit that has exposed gaps in many wholesale-banking service portfolios. To maintain treasurer trust, wholesale banks must define a clear digital strategy and upgrade their service approach to optimize human and virtual coverage on the basis of customer value and needs.
- **Commit to making needed operational changes.** Established players need to mature their data and analytics capabilities, embrace open-banking innovations, improve monetization opportunities, and provide more-tailored services and offerings. They must also forge greater connectivity internally and use data-driven insights to increase sales effectiveness.

These factors are likely to play out in different ways for retail and wholesale payments providers. BCG's *Global Payments 2018* report examines the challenges and opportunities they will create over the next ten years. We look at the state of the market, both globally and in different geographic regions, and explore the pain points that providers must address to turn payments into a long-term avenue for growth.

# MARKET OUTLOOK

**P**AYMENTS REVENUE HAS BEEN growing at a CAGR of 6.8% globally since 2010, reaching \$1.27 trillion in 2017. Projections for the next ten years look equally rosy. We predict payments will generate more than \$1 trillion in new revenue over the next decade, growing to \$2.42 trillion by 2027. (See Exhibit 1.)

That translates to a CAGR of 6.6%, outpacing global nominal GDP growth. The ongoing shift to noncash payments is driving that growth and creating a windfall for payments providers, despite mounting pricing pressure

such as interchange rate changes in certain countries.

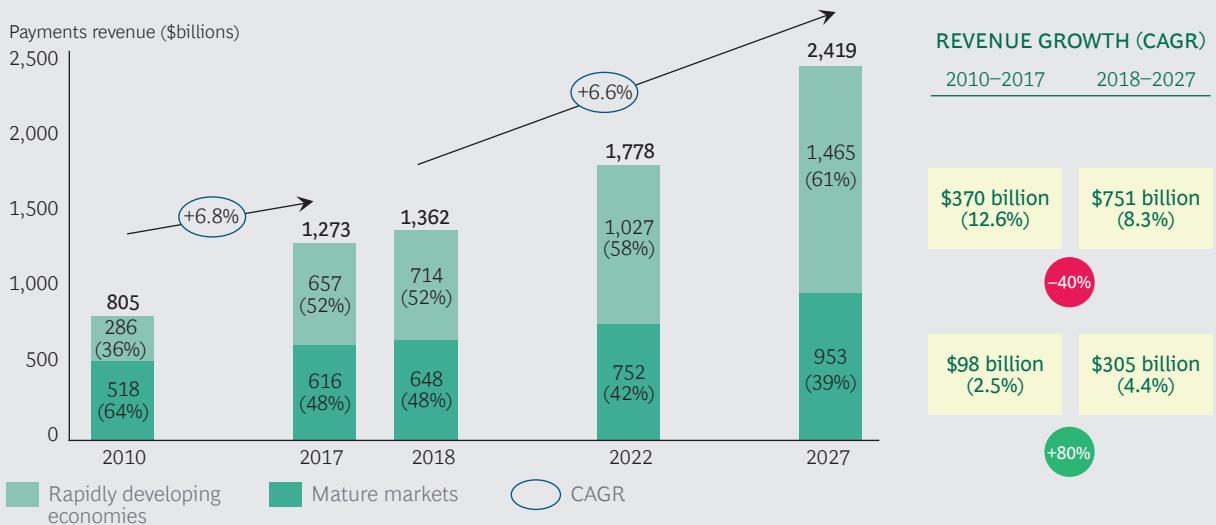
## Global Trends

While the payments outlook can vary across segments and providers, BCG data reveals several overarching patterns that could have strategic implications for participants in the global payments arena.

### NONCASH USE IS ON THE RISE

Some countries are rapidly becoming cashless, a trend fueled by contactless payments

**EXHIBIT 1 | Payments Revenue Is Expected to Grow by \$1.1 Trillion Through 2027**



Source: BCG Global Payments Model 2018.



and the expanding availability of digital payment methods. The Nordic countries, especially Sweden and Norway, are a prime example. There, the average number of card transactions is substantially higher than that in mature markets in general.

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“Payments tigers” have made rapid progress toward becoming cashless.

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While these and other mature markets rank among the heaviest users of noncash payments, RDEs are catching up. An emerging group of “payments tigers” has made especially rapid progress toward becoming cashless. Poland has its Cashless Poland collaboration between government and key payments players, while the move to cashless in Russia

is led by a concentrated group of leading banks. (See the sidebar “The Russian Miracle.”) Our data show that the use of noncash methods by these tigers has begun to rival—and even exceed—that of some mature markets. (See Exhibit 2.)

As comfort with noncash methods grows globally, we expect that consumers will increasingly use electronic means to pay for smaller transactions, where coins and cash used to dominate. By 2027, we expect average non-cash-transaction values for retail customers to fall to about \$54, compared with \$97 in 2017.

### **RDEs WILL GROW AT TWICE THE RATE OF MATURE MARKETS**

More than 70% of global revenue growth over the next ten years will come from RDEs—26% of it from China alone. Strong macroeconomic performance, increasing cash-to-noncash conversion, and high interest rates will combine to support average annual

## THE RUSSIAN MIRACLE

In Russia, non-cash-payment transactions per capita grew from approximately 25 in 2010 to roughly 150 in 2017, a 29% CAGR. In 2010, Russia ranked 29th in Europe in card transactions per capita. By 2017, it had jumped to 14th place, ahead of Western European markets such as Spain and Germany.

Several factors led to the transformation. The first was that banks had some natural incentives. Russian banks were in need of cheap retail funding after the financial crisis, and noncash transactions provide a stable source of fee income. The Russian banking market is also highly concentrated, so the actions of a few banks often set the bar for the rest. Card issuers such as Sberbank, with its 55% market share based on payments transaction value, employed 10,000 meet-and-greeters in bank branches to provide information and encourage adoption. In addition, they invested heavily in technology to improve the quality and availability of contactless payments, digital wallets, and mobile P2P payments. Acquir-

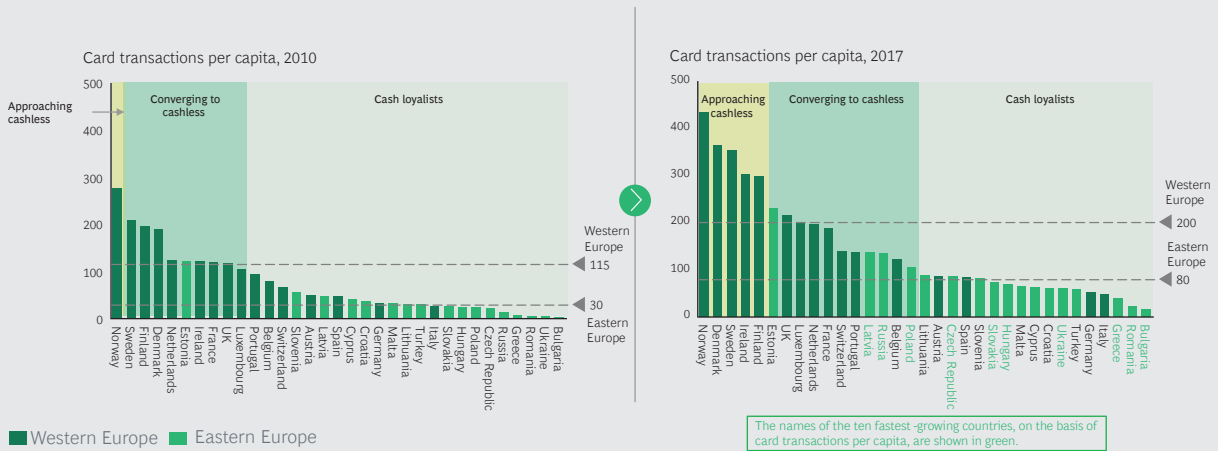
ers also helped support adoption, increasing the number of point-of-sale (POS) terminals fourfold over 2010.

Customers liked the convenience and ease of noncash transactions. They also enjoyed innovations such as the instant and commission-free mobile-to-mobile payments that Sberbank offered. To boost consumer confidence, Russian card issuers made a strong push to safeguard against fraud. Almost 100% of cards are chip-pin and conform to the security protocols advanced by major card networks; all payroll cards have free SMS notifications for each transaction. As a result of these changes, Russia has now become the global leader in the number of tokenized, contactless secured transactions and the largest market for digital wallets.

## EXHIBIT 2 | Eastern Europe Has Seen Rapid Growth in Card Transactions Per Capita

IN 2010, MANY EASTERN EUROPEAN COUNTRIES WERE PRIMARILY CASH-BASED SOCIETIES...

... BUT BY 2017, THESE EASTERN EUROPEAN LEADERS HAD LARGELY CLOSED THE CASHLESS GAP WITH WESTERN EUROPE



Source: BCG Global Payments Model 2018.

Note: "Approaching cashless" is defined as greater than 250 card transactions per capita; "converging to cashless" is defined as greater than 100 card transactions per capita. Card transactions per capita include retail transactions only.

growth of 8% in payments revenue through 2027. Although payments revenue is lower in mature markets than in RDEs, it is expected to grow at a healthy CAGR of about 4% over the next ten years. Mature markets will account for approximately 39% of global payments revenue by 2027. As such, these markets will remain crucial for global payments players.

Mature markets will see strong growth and remain vital areas for global payments providers.

### THE MIX BETWEEN PRIMARY- AND SECONDARY-PAYMENTS REVENUE IS SHIFTING

Primary revenue comprises the fees that are collected each time a payment is processed, and secondary revenue includes non-transaction-related card revenue as well as account revenue. The role that each plays in driving total payments revenue growth is shifting. Buoyed by non-cash-payment volumes as well as a significant decline in interest margins, primary-payments revenue now accounts for 43% of total payments revenue in the mature markets, up from 38% in 2010.

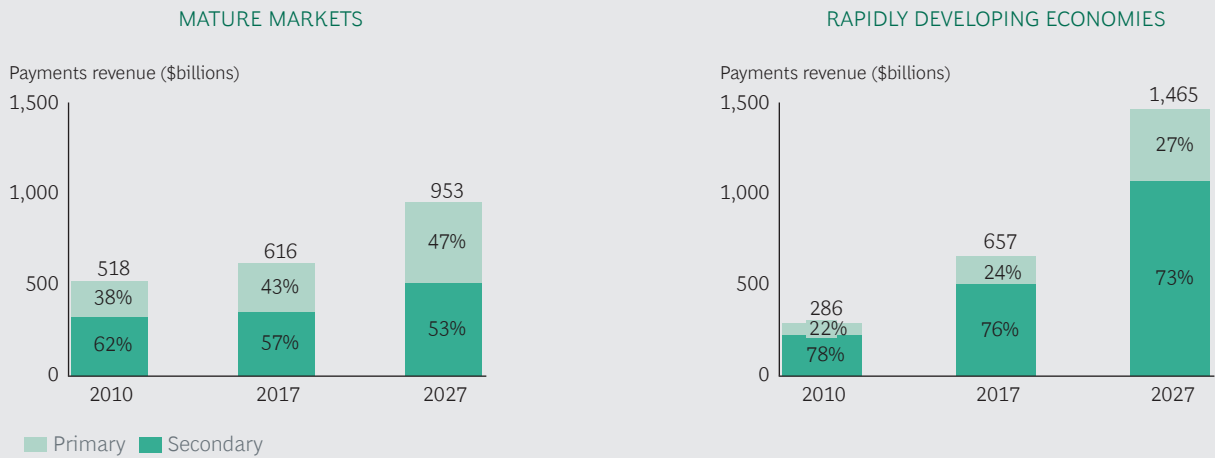
Absent a sudden spike in interest rates, primary revenue will account for 54% of total payments revenue growth over the next ten years as rising transaction volumes fuel growth in interchange revenue flows. The exception will be in Western Europe, where caps on interchange suggest that the balance of primary- and secondary-revenue sources will remain relatively unchanged over the next decade despite the rapid growth in non-cash-transaction volumes.

It's a different story in RDEs, where primary sources contribute only 24% of total payments revenue. We expect that the primary-payments revenue share will grow to 27% in the years ahead, however, as consumers in RDEs increasingly embrace fee-generating noncash payments. Nevertheless, secondary revenue will remain the primary growth driver, accounting for 73% of total revenue growth in RDEs. (See Exhibit 3.)

### RDEs CONTINUE TO DRIVE PAYMENTS INNOVATION

Scrappy, young digital payments players—propelled by strong investor backing—are creating bold, new business models and targeting populations that traditional payments providers have largely ignored. BCG's Fintech Control Tower data reveals that large fintechs in the Asia-Pacific region account for almost

### EXHIBIT 3 | Primary Sources Are Driving a Greater Share of Payments Revenue Growth



Source: BCG Global Payments Model 2018.

Note: Primary revenue includes revenue from transactions only; secondary revenue includes annual account maintenance fees, interest on account deposits, card fees, and penalty fee revenue. Mature markets include Western Europe, North America, and Asia—mature (Australia, Japan, New Zealand, and South Korea); all other regions are included under rapidly developing economies.

half of total equity funding in digital retail payments.

Incumbents have missed out on the massive growth captured by attackers.

While incumbents have not lost in absolute terms, they have missed out on the massive growth that attackers have been able to capture by providing customers with compelling new features and services. In China, for instance, companies such as Tencent and Ant Financial have created a huge mobile-payments ecosystem that caters to the needs of people not sufficiently covered by traditional banks. Paytm has done the same in India, focusing on small merchants that frequently go underserved by traditional banks. Paytm’s innovations, including user-friendly QR codes that make it easy for shop owners to enable acceptance along with Paytm’s huge on-the-ground sales teams, have won the company a wide following. Likewise, in Latin America, new players such as PagSeguro and Stone have disrupted business previously dominated by big bank-owned acquirers by offering innovative e-commerce and mobile

POS solutions tailored to the needs of online retailers and small merchants.

We predict that RDEs will continue to be a hotbed of payments innovation—raising the bar for incumbents both locally and globally.

### Regional Outlook

Factors propelling growth play out differently across countries and regions. Here is our regional payments outlook.

#### US

Helped by favorable macroeconomic conditions, US payments revenue grew at a 5% CAGR from 2015 through 2017. Card payments revenue grew 6% during the same period. We project that growth will slow slightly from 2018 through 2027, hovering at about 4% for payments overall and 5% for card payments. The shift to digital payments has been particularly robust, with mobile commerce becoming an increasingly important component of this growth. As an example, mobile purchases accounted for one-third of 2017 Thanksgiving Day, Black Friday, and Cyber Monday online payments.

Still, while US consumers have shown a willingness to buy online through apps, they

have been less inclined to use apps when making in-store purchases. Mobile wallets and device apps accounted for only about 1% of all in-store purchases during the Thanksgiving Day period. Another worry is that growth in online sales and “card not present” transactions could lead to an uptick in remote fraud, which can be easier to execute and scale than in-person fraudulent-card use.

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## Fintechs and digital giants are raising the bar for traditional payments players.

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In addition, fintechs and digital giants are raising the bar for traditional payments players. For example, the in-store credit space is rapidly innovating. Fintechs such as Affirm, GreenSky, and Vyze are providing a credible alternative to traditional store cards, offering merchants simple integrations and providing customers with even more ways to pay.

Others are experimenting with different pricing models and bundles. Fair Square, a fintech specializing in near-prime lending, achieved a 30% better response rate in a major marketing campaign as a result of advanced machine-learning techniques that sped test-and-learn cycles. Similar techniques also improved underwriting performance.

While fintechs and digital giants still command only about a 2% share of the overall payments market in the US, card issuers can't afford to sit back. Many are using cobranded opportunities to expand their base and develop attractive customer value propositions. That push has led to shifts in some cobranded ventures, as well as major changes to program economics and more-aggressive rewards.

Finally, as real-time payments come to the US, banks will be pressed to upgrade their technology stack and find use cases that allow them to gain a competitive edge over peer banks and nonbank competitors.

## EUROPE

In Europe, total payments revenue grew at a 2% CAGR from 2010 through 2017 to reach \$216 billion. Declining interest rates contributed to flat growth in payments revenue in Western Europe; this weighed down payments revenue growth across Europe as a whole. That should change going forward, and we expect payments revenue to maintain a CAGR of 6% through 2027, as transaction growth in both Western and Eastern Europe accelerates.

A number of factors are likely to reshape the payments space across the region over the next several years. The first is consolidation. Several M&A deal announcements in the first half of 2018 herald a new wave of buyouts in the European merchant-acquiring landscape. This builds on an earlier wave of private equity (PE) acquisitions that were focused on snapping up undermanaged utilities. Those acquisitions helped PE owners generate tremendous value—professionalizing management and allowing them to gain new digital capabilities and serve as a platform for further acquisitions. We also see the emergence of pan-European payments providers, such as Worldline and Nets, that are seeking to use earlier investments to build cross-border scale over the next several years. This will make it harder for subscale and bank-owned assets to compete, which will spur further divestments, partnerships, and consolidation.

Another factor is regulation. The European Commission launched a proposal to reduce the price of cross-border euro payments in non-euro EU member states and increase transparency for customers when doing currency conversions. This will likely lead to lower cross-border payments fees. Competition will also intensify. As PSD2 opens up the banking market, the payments arena will become increasingly crowded, with more players and a greater number of product choices for customers.

Rather than view the disruption as a threat, however, leading banks will take advantage of the opportunities that open banking creates to augment existing services, build new digital channels, and create disruptive new ventures of their own. In addition, banks can

use their trusted advisor status to become a valued custodian and steward of customer data—something that will become increasingly important in light of the General Data Protection Regulation (GDPR) that mandates stricter data governance rules.

Finally, the payments infrastructure is changing. In November 2018, the European Central Bank (ECB) will launch its TARGET Instant Payment Settlement Service (TIPS) in an effort to create a pan-European solution for the settlement of instant payments, alongside other initiatives such as EBA Clearing's RT1 system, which was launched in 2017. We expect that 80% of European banks will be in a position to accept pan-EU real-time credit transfers by the end of 2018.

## ASIA

In Asia, total payments revenue grew at a 12% CAGR from 2010 through 2017 to reach approximately \$490 billion. And we expect that it will continue to grow, increasing at a CAGR of 7% through 2027. While considerably above the 4% annual growth rate in mature markets, the rate of growth in Asia is slowing. That's largely because of China, which drove more than half of the 12.6% growth rate in RDEs since 2010.

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After stellar growth over the past seven years, China's payments space is maturing.

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As payments in China mature and transition to alternative payments schemes, revenue growth from traditional financial institutions has begun to slow, particularly in debit cards. After the stellar growth of the past seven years, the country's payments space is maturing. Annual card transactions per capita in China will reach more than 200 by 2027, which corresponds to the average number of annual card transactions in mature economies in 2017. As payments growth in China cools, large economies such as India, Indonesia, and Vietnam will pick up some of that slack. Each is on track to increase payments by more than 9% over the coming decade.

South Korea, in particular, has become a world leader in cashless transactions, helped by a regulatory environment that has favored the growth of strong local card companies. In 2017, South Korea had approximately 436 noncash payments per capita, almost double the number in 2012.

Technology is one of the key drivers behind this growth in noncash payments in Asia; it is being used to simplify the customer onboarding and transaction experiences. For example, facial recognition and fingerprints are replacing passwords and know-your-customer (KYC) authentication for financial transactions.

Another trend is the speed at which non-banks are entering the payments arena. They include a growing number of social media companies (for example, Line, Facebook, and KakaoTalk) as well as startups in sectors seemingly far removed from financial services. Grab, for instance, is a major Southeast Asian transportation company with a rapidly growing payments and financial services portfolio for small merchants and entrepreneurs. The company's digital payments service, GrabPay, now boasts a user base of 6 million entrepreneurs with a target to increase that number to 100 million by 2020. Use of GrabPay credits has grown 80% month to month since its launch in November 2016.

In China, digital giants such as Ant Financial and Tencent dominate the fast-growing mobile-payments space. They have a combined market share of over 90% in mobile payments. Given the fierce competition between these two players in domestic markets, both are also looking to expand abroad. In doing so, they are taking a two-pronged strategy: trying to replicate their original model across Asia-Pacific through investments in local digital wallets (for example, Alipay's investments in Paytm in India) and seeking to expand acceptance at retailers in Europe and North America by targeting Chinese tourists and the Chinese diaspora. Together, these businesses have attracted a staggering \$18.5 billion in equity funding—roughly 45% of total equity funding in digital retail payments globally.

The sharp growth trajectory of Chinese digital payments services Alipay and Tenpay over

the past several years matches a slower increase in debit card spending in the country, after staggering growth of 38% CAGR from 2010 through 2015.

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## The UPI could be a game changer for the digital payments space in India.

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Elsewhere in the region, India has seen payments volumes rise significantly in the two years since demonetization. In 2017, total payments revenue equaled \$20 billion, compared with \$17 billion in 2016. We expect that payments revenue will increase at an 11% CAGR over the next ten years. One factor behind this growth has been the availability of innovative payment methods such as Paytm and Google Pay (formerly Google Tez), which have expanded payments access. Another factor has been the Indian government's push to advance noncash payments, an effort that included promoting payments infrastructure modernization and waiving the merchant service charges (MSCs) for debit transactions below \$30 through a subsidization program.

Winners from demonetization include the local card scheme RuPay, whose volumes are up almost 2,000% over the past two years, driven by increased activation and use of debit cards, and the digital wallet Paytm, whose volumes grew by 900% over the same time period. Both succeeded in attracting underbanked or inactive customer segments.

On the infrastructure side, the UPI that the National Payments Corporation of India (NPCI) launched in 2016 could be a game changer for the digital payments space in India and may lead to a drastic shift away from traditional cards and wallets to account-based payments. The UPI has also made it easier for foreign attackers such as PayU and WhatsApp to enter the Indian market.

In the two years since UPI launched, UPI volumes have grown to 9% of total retail payments in India; and they are set to increase

further as the UPI was extended in 2018 with new features such as linking overdraft accounts, sending invoices directly to a customer's inbox, and scheduling payments.

In addition, the UPI's open architecture has encouraged tech giants such as Google and Facebook as well as local e-commerce players like Flipkart to build intuitive payment apps, which could boost adoption of noncash payments for P2P as well as merchant transactions.

### LATIN AMERICA

Payments in Latin America continue to show strong growth, rising by a CAGR of 9% from 2010 through 2017, and are expected to increase by a further 11% annually over the next ten years. We see significant room for growth in Latin America because non-cash payments penetration significantly lags that in mature economies. While the macro-economic picture for Latin America is mixed, noncash payments are gaining traction. MercadoPago, the payments branch of the marketplace giant MercadoLibre, now offers mobile wallets, P2P, mobile POS, and merchant financing. Argentina's Todo Pago is following a similar path with P2P and QR-based mobile payments. In Chile, Banco Bci has added an innovative P2P platform and launched a prepaid card called MACH.

The acquiring landscape is transforming rapidly and opening up to new competitors. In Brazil, the historical stronghold of Cielo and Rede is under attack by Santander Getnet and new entrants such as PagSeguro and Stone. Incumbents and large banks are competing on several fronts, including the sale of POS terminals. In Argentina, regulators have been pushing for the sale of bank-owned Prisma, while in Colombia regulators are trying to expand competition beyond the country's two payments processors/networks. In Chile, new player Multicaja received an acquiring license and is challenging the traditional incumbent, Transbank. And Compraquí, a new acquiring service offered by BancoEstado and SumUp, is making inroads against established institutions by focusing on long-tail opportunities such as underserved small merchants. In Mexico, Citibanamex sold its acquiring division to EVO Payments.

Across Latin America, new regulations are also having an impact. Brazil and Argentina both introduced new interchange regulations. And Brazil's central bank announced a plan to develop a national instant-payments scheme. In Mexico, regulators are working to mandate open banking and provide a regulatory framework for other innovations such as

cryptocurrencies. In addition, the government and financial sectors are working together on initiatives to improve noncash adoption, such as enabling the use of QR codes. While these interventions create new challenges for payments players, they are also likely to drive the growth of noncash payments.

# RETAIL PROVIDERS MUST EVOLVE THE PAYMENTS JOURNEY

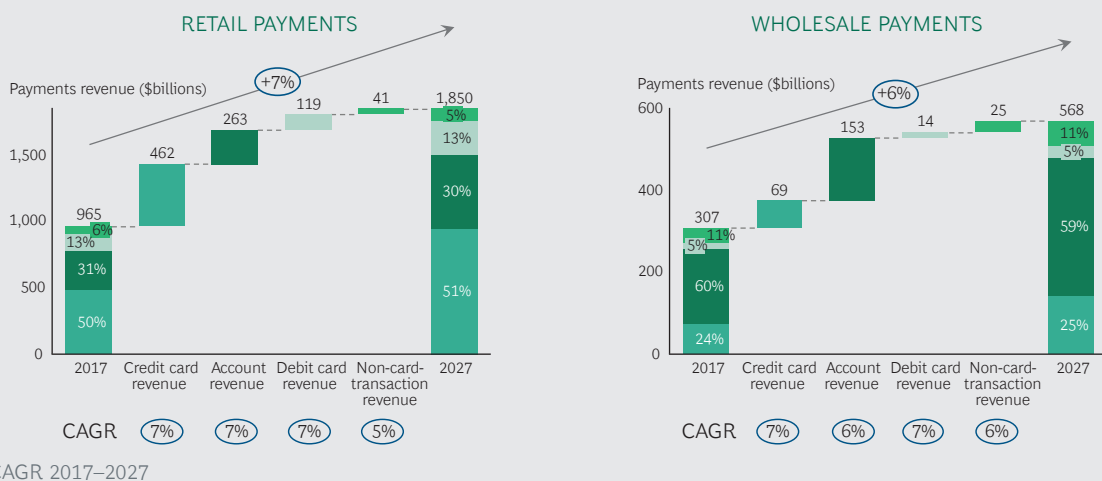
**R**ETAIL BANKS, MERCHANT ACQUIRERS, and payments providers have the opportunity to increase revenue significantly over the coming years. Our data shows that retail revenue is on track to outpace wholesale payments revenue. (See Exhibit 4.) Maintaining strong growth, however, requires that retail payments providers address crucial customer pain points. In a “click of a button” world, buying journeys that are riddled with manual processes and clicks feel especially

jarring. As digital giants and fintechs vie for their share of the payments space, card issuers must address key irritants in the purchasing process to retain existing customers and expand their base.

## Five Ways to Improve the Online Buying Experience

We recommend that payments providers focus most of their attention on the online

**EXHIBIT 4 | Retail Payments Revenue Is Expected to Outpace Wholesale Payments Revenue**



Sources: BCG Global Payments Model 2018; BCG analysis.

**Note:** Credit and debit card revenue include transaction-specific fees (interchange fees, merchant-acquiring fees, and currency conversion fees for cross-border transactions) and monthly or annual card membership fees. Credit card revenue also includes net interest income, penalty fees, and other service fees (for example, cash withdrawal fees). Debit card revenue also includes fees for overdrafts and insufficient funds. Account revenue consists of net interest income and maintenance fees on current accounts (such as demand deposit accounts). Non-card-transaction revenue includes transaction-specific fees and, as applicable, fees for overdrafts and insufficient funds. Credit card revenue includes charge cards; prepaid cards are included in non-card-transaction revenue. Totals and percentages may reflect rounding.



shopping experience. Not only is this the fastest-growing area in the consumer payments space, it's also the one where the pain points are most pronounced.

E-commerce transactions account for close to 12% of total retail sales. That percentage is likely to increase to 20% by 2022 as the number of digital channels and buying platforms proliferates. We estimate that more than 20% of the growth in acquiring revenue will be driven by demand from global merchants and those that are considering expanding internationally and need global payments solutions. Yet incumbent players will face stiff competition.

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## Time and tedium are a major driver of high cart abandonment rates.

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To attract and retain customers, providers must address persistent problems. Data shows that the average e-commerce website requires shoppers to click roughly 23 times before completing their purchase.<sup>1</sup> Cumbersome checkout processes often require customers to complete a series of microtasks, such as keying in their billing address, credit card number, shipping address, and other basic information. The time and tedium are a major driver of high cart abandonment rates, especially in mobile commerce, where customers are on the move and might not have the time or all the information required to finalize the payment. In the first quarter of 2018 alone, cart abandonment resulted in an estimated \$236 billion in lost sales.<sup>2</sup>

Banks and payments service providers must address these issues or risk losing their share of the sizable revenue growth that is forecast in the space. Rather than spreading their budgets across a number of initiatives, retail payments providers should focus on several crucial issues.

### **SIMPLIFY AND HARMONIZE AUTHENTICATION**

One major driver of online cart abandonment is a clunky authentication experience.

It's an annoyance that is likely to get worse as PSD2 regulations take effect in Europe. Those regulations are expected to double the number of transactions that require strong customer authentication. To avoid losing share to competitors such as PayPal and Amazon Pay that have created one-click checkout solutions, card issuers and card networks must come together and significantly revamp the authentication experience.

One promising approach is to advance the use of biometrics. Given the widespread adoption of mobile phones, fingerprint and facial recognition methods could speed checkout without compromising security. Another way to reduce cart abandonment rates is to develop risk-based algorithms as an alternative to PSD2's strong customer authentication requirements.

Over the longer term, providers should push for an industrywide authentication standard. Authentication solutions that are limited to a single use case or a single bank won't be able to build critical mass; customers won't be interested in juggling multiple authentication protocols. Instead, banks should take their cue from the Nordic countries, where industrywide authentication has been around for some time. One initiative that could be particularly promising is the Secure Remote Commerce (SRC) standard being implemented by Visa and Mastercard, which could result in a single "buy" button across card networks, merchants, and channels. (See the sidebar "A Card Network Initiative Could Help Unify Authentication Standards.")

### **INJECT NEW VALUE INTO THE BUYING JOURNEY**

Payments providers have several ways to differentiate their service and add customer value. One is to remove unnecessary process steps by redesigning and automating the e-commerce experience. For example, merchants that offer Apple Pay, which automates the entire purchasing journey, have sales conversion rates that are five times higher than those that don't use Apple Pay. Another way payments providers can differentiate their services is by offering personalized recommendations and improving site selection—and their extensive transaction data repositories give

## A CARD NETWORK INITIATIVE COULD HELP UNIFY AUTHENTICATION STANDARDS

EMVCo, an organization established and managed by six major card networks, announced the creation of Secure Remote Commerce (SRC), a set of digital authentication standards designed to work across all card schemes and issuers.

The aim is to create a simpler and more secure checkout process for web and mobile shopping. In addition to establishing uniform authentication standards, the SRC initiative includes digital process enhancements. When the SRC system goes live—expected at the end of 2018—customers will be able to press a single “buy” button during online or mobile checkout, similar to the one-click purchas-

ing experience offered by Amazon and PayPal.

If the effort proves successful, adoption could also reduce complexity and costs for merchants, many of whom today must integrate a wide assortment of checkout and authentication options. Customers will register for the authentication program using their online banking app, and card issuers will enable SRC within their own online apps. In addition, SRC is designed to work within EMVCo’s wider portfolio of security technology, including EMV Payment Tokenization, which should make it easier for merchants to store card tokens securely.

them a distinct advantage in this area. A third way to inject value is to offer innovative payment options through features such as instant financing and flexible payback terms and to improve the postpurchase period through such things as real-time chargebacks—all of which are likely to have wide customer appeal.

### REINFORCE LEADERSHIP IN CARD-ON-FILE PAYMENTS

At the physical POS, consumers decide which card they wish to use each time they make a transaction. The online space is different. There, the ability to preselect a card on file means one card tends to become the default. The largest card issuers understand these dynamics. Many have begun to partner actively with large merchants in offering incentives and promotions to make their card the primary card-on-file choice. Smaller issuers are at a disadvantage in this area because many do not have digital teams to promote card activation and partnerships with retailers. With digital payments likely to account for up to 50% of payments revenue growth, the battle for primary-card status in digital payments is one that issuers cannot afford to lose.

### EMBRACE THE MOVE TO ONLINE FINANCING

As e-commerce becomes more mature, customers are becoming increasingly comfort-

able purchasing bigger-ticket items online. This will fuel demand for online financing. In response, we expect the consumer finance business to move online as well. Fintechs such as Klarna and Affirm and large card issuers such as Synchrony already have their eyes on this opportunity. But rather than cede this area to them, incumbent issuers should partner with acquirers or merchants and capture this emerging opportunity in online credit.

### DEVELOP PAYMENTS SOLUTIONS THAT WORK GLOBALLY

While e-commerce is becoming increasingly global, consumers often still want to pay using their familiar, local payment methods. With the rapid growth that’s occurring in cross-border e-commerce, online merchants are looking for providers that can help them accept a variety of local payments solutions by supporting alternative payment methods and making authentication easier for card payments. Leaders in this area have the potential to generate significant new revenue flows. To avoid being left behind, other payments providers need to focus on the merchant segments where they have the strongest market opportunities and need to invest in digital cross-border payments solutions.

## Three Ways Acquirers Can Improve the Broader Merchant Experience

Although merchant acquirers have invested in improving service and outreach, most haven't made the deep, structural adjustments needed to address lingering pain points. That's giving fintechs and new digital entrants an unnecessary advantage.

Payments providers focusing on mobile POS solutions for small retailers or online payments solutions for e-commerce players are using their digital capabilities to provide merchants with enhanced offerings that are designed to slot easily into a merchant's existing systems. They are increasingly providing the capabilities that allow merchants to deliver an omnichannel customer experience without being limited by geographic boundaries.

The combination of innovative tactics, the growth in M&A, and the arrival of e-wallet providers—some of which are bypassing traditional acquirers and bundling merchants directly into their proprietary wallets—is causing price compression in the industry. In the US, for instance, we predict these factors will lead to a roughly 3% decrease in acquirer margins.

We are also witnessing an evolution in how digital mobile POS companies and e-commerce players go to market. New players are finding innovative ways to expand their merchant base, using a multichannel distribution model that includes direct online sales as well as sales through partnerships. This approach allows new players to rapidly scale up sales across geographic areas and extend service to small and midsize enterprises.

To meet the changing needs of merchants and grow in the face of pricing headwinds, merchant acquirers need to address three crucial areas.

### DELIVER INTEGRATED PAYMENTS

Merchants increasingly want payments functionality to be integrated into their core systems, such as their ERP and accounting systems, and they want that functionality to be tailored to their particular industry. Hotels or

airlines, for instance, that have integrated payment and booking systems can spare customers the hassle of reentering or supplying their credit card number to buy extras for a flight or check out of a hotel.

The need for these capabilities has opened the door to integrated software vendors (ISVs) that provide payments integration and vertical industry specialization. ISVs now account for 5% to 10% of total card transaction volume in the US, and their share of the market is expected to grow significantly over the coming decade, especially among small to midsize enterprises. Verticals with a relatively large penetration of integrated payments today include online marketplaces, quick-service restaurants, personal services, health care, and B2B. As this market grows, we expect vertical specialization will expand to include many other sectors.

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Successful ISV partnerships require a heavy investment in service and technology.

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As ISVs gain scale and expand along the value chain, acquirers need to defend their base. While some may choose to invest in building their own integrated payments capabilities, others will focus on forming strategic partnerships with ISVs or acquiring ISVs outright. These arrangements would allow merchant acquirers to gain access to needed functionality and provide customers with a comprehensive payments offering.

Forging successful ISV partnerships requires a heavy investment in service and technology. In the technology industry, leaders such as Microsoft succeed in wooing desirable ISV partners by demonstrating that they have leading technologies and by making it easy for an ISV developer to quickly and cost-effectively integrate its products into their systems. This practice of demonstrating a company's "partner of choice" credentials is on its way to the acquirer space, where technical capability and customer centricity are becoming paramount.

To attract the most promising ISV partners, merchant acquirers must upgrade their core technology stack to support collaboration and develop APIs to simplify data connections. They also should create mechanisms to evaluate verticals and partners systematically in order to ensure that the arrangement satisfies return on investment. Finally, acquirers need to develop a competitively advantaged, customized offering for their target verticals so that they can reduce the pressure to share a larger portion of their revenue with ISVs.

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## Acquirers must develop a competitive, customized offering for target verticals.

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### ADOPT A NEW GO-TO-MARKET APPROACH

While the ISV channel will expand significantly in the US and beyond, direct sales channels will remain important. For example, large merchants will continue to demand direct acquirer relationships. While digital technology companies such as Salesforce.com, Box, and Amazon Web Services have evolved their B2B sales and marketing models considerably over the past decade, most merchant acquirers have not. That means they're leaving value on the table. By emulating the practices of fast-growing technology vendors, merchant acquirers can improve both sales effectiveness and service quality. Here's how:

- **Develop an inside sales force.** Traditionally, merchant acquirers have relied on field representatives to manage all aspects of the sales cycle. But that approach can result in too much time spent on administrative tasks and too little time in front of customers and prospects. Leading players relieve that load by creating an inside sales force to partner with field sales. While field reps focus on building high-value relationships, the inside sales team focuses on sourcing and qualifying leads, using lead-scoring algorithms to vet and prioritize promising targets. That improved division of labor contributes to
- **Align sales coverage with customer value.** To improve sales effectiveness and customer service, leading players segment their coverage models. They match their top-performing relationship managers with high-value accounts or those that have the most complex needs; they migrate lower-value customers or those with basic needs to an online sales model backed by top-notch digital processes that allow customers to manage most needs using convenient, self-service tools. Merchant acquirers can adopt a similar approach. In addition, they should integrate the postsales team into the coverage model to improve communication and collaboration across the sales cycle and identify cross-selling opportunities. These steps can help acquirers increase customer satisfaction, retention, and renewals.
- **Shift from inbound to outbound leads.** Feeding the inside and outside sales teams with potential customers requires an investment in next-generation data-driven lead generation. Marketing plays a much larger role now in B2B sales, and leading marketing teams use data to identify excellent lead candidates and spot opportunities to help merchants more successfully implement merchant acquirer services.
- **Introduce flexible pricing models.** In contrast to traditional merchant acquirer pricing models, which tend to be fixed and tiered with complex structures and layered fees, the new pricing models developed by digital leaders emphasize simplicity, flexibility, and transparency. Merchant acquirers can take a similar approach and offer a mix of pricing bundles and payment plans, such as pay-as-you-go or subscription services that feature “no hidden charges” guarantees, no monthly minimums, and flat merchant service charge (MSC) rates.

greater productivity and growth. In high-performing B2B sales teams, for instance, the inside sales force drives as much as 70% of all sales, according to BCG data.

## INVEST IN ADJACENT SERVICES

Acquirers enjoy a strong and trusted position in a merchant's supplier stack. The strongest acquirers leverage that trusted position, as well as the extensive data and expertise they have in the payments space, to offer a suite of valuable services to their customer base.

The mobile payments company and merchant services aggregator Square earns almost 30% of its adjusted revenue from adjacent services. In addition to same-day deposits, Square's offerings include the ability to provide loans, invoice services, and payroll for small and midsize businesses. Square has adopted a VC-style approach to launching these new businesses, with the goal of driving both revenue and customer loyalty.

We believe acquirers also have a significant opportunity to develop services that go beyond traditional e-commerce transaction

acceptance. In particular, we estimate that two-thirds of card-not-present payments in the US are related to nonretail transactions such as bill payments. As competition for merchant business intensifies, innovative acquirers will develop capabilities that focus on these untapped areas to expand their customer base.

### NOTES

1. Checkout Conversion Index, Payments.com, April 2018 <https://www.pymnts.com/checkout-conversion-index/>
2. Checkout Conversion Index, Payments.com, April 2018 <https://www.pymnts.com/checkout-conversion-index/>

# WHOLESALE BANKS MUST ADDRESS THE EXPECTATIONS GAP

**C**ORPORATE TREASURERS ARE BEING pulled in two directions. On one hand, they must manage core cash flow and liquidity operations with greater speed and efficiency. On the other, they must address a growing number of strategic business issues at the enterprise level. Wholesale banks have not kept up with these evolving demands. Not only have they been slow to innovate their product and service offerings, but they have been slow to address basic shortcomings in the customer experience. Those gaps have opened the door to nonbanks. While ERP providers, treasury management systems (TMSs), and fintechs lack the institutional expertise and full-service capabilities of wholesale banks, they are taking share in a number of areas. Wholesale banks must close the expectations gap or find themselves sidelined.

## Unresolved Pain Points Erode Banks' Trust Advantage

Many treasurers view wholesale banks as a valued extension of their own business, regarding them with the same level of trust as they do many internal corporate functions. Yet a BCG treasurer survey in partnership with BNP Paribas found fissures emerging. Wholesale banks are failing to meet customer expectations on a number of fronts. (See *Corporate Treasury Insights 2018: A Game of Trust*, BCG and BNP Paribas Focus, June 2018.)

Faced with a more challenging remit, corporate treasurers are looking for their wholesale-banking partners to improve the quality and convenience of their service. They want digital tools and data that make it easier to manage financial flows, resolve reconciliation problems, and issue proactive alerts, and they want plug-and-play connectivity between their transaction service provider offerings and their own internal financial systems.

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It's essential to treasurers that wholesale banks deliver well on the basics.

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But while treasurers are clamoring for stronger digital solutions, what they want most is for banks to deliver well on the basics. A survey at one large European bank found that more than a quarter of all customers said managing international and domestic payments with the bank was difficult to very difficult. Real-time payments will resolve some of these issues, but compelling end-user applications remain a few years out. (See the sidebar "Enabling Faster B2B Payments.")

Persistent complaints include long lead times, too many process steps and interactions, and

## ENABLING FASTER B2B PAYMENTS

Real-time payment (RTP) systems are becoming increasingly well established across the globe: more than 25 countries have RTPs in place, with some notable systems including the New Payments Platform in Australia and The Clearing House's Real-Time Payments network in the US, coming online in the past year.

While these new systems are still in their infancy, they offer significant potential for B2B payments. Faster speeds, payment certainty, and payment finality will enable just-in-time deliveries and time-critical disbursements and will expedite the shift away from paper in payment-on-delivery situations. RTPs can also provide organizations with richer contextual data. Newer RTPs are set up to transmit more-detailed remittance information than legacy payments systems, adhere to international (ISO20022) message standards, and make it possible to attach PDF files with invoices or other payment information to the payment message, which can enable a more seamless, straight-through-processing experience in accounts receivable.

There are challenges to overcome, however, before RTPs become mainstream in B2B. Organizations will need to adjust current processes (for example, move from batch processing to real time, with implications

for control processes, liquidity management, and accounting protocols). RTPs will also need to be integrated with ERPs, and industrywide collaboration may be required to embrace ISO20022. In addition, inertia could delay adoption—organizations may be reluctant to invest in change because many have passable workarounds for current pain points.

That shouldn't stop banks from taking advantage of RTPs, however. In the short term, banks should focus on using RTPs to offer new and innovative services that can improve their corporate customers' client experience, differentiate their offerings, and reduce paper. These opportunities are likely to emerge in the business-to-customer domain (insurance claim payouts, for example), where customers value faster access to funds; and in new customer-centric services, such as RTP payments that can be made at the push of a button directly from a payments app. First movers will likely enjoy a short window of opportunity before these services become mainstream.

To foster long-term adoption, banks can take part in industry initiatives to encourage standardization. They can also partner with fintechs to develop industrywide solutions such as proprietary AP/AR platforms that connect buyers and sellers.

too little clarity on timing, approvals, and other items. Treasurers continue to be frustrated by what they see as a lack of transparency on pricing structures, which brings uncertainty and occasionally annoyance. In addition, organizations are not served in a holistic way because of product and structural silos within the banks, and treasury teams are often asked to provide documents multiple times when opening new accounts because of inconsistent banking requirements across regions. Likewise, wholesale-banking models are generally not optimized for specific industry or business characteristics, which means customers don't get the tailored advice or service they would like.

With banks struggling to meet treasurer expectations, nonbanks are working hard to position themselves as alternative providers. BCG's treasury survey found that treasurers in North America rated ERP vendors and payments providers higher than wholesale banks on a trust index. Fueled by massive investments, the number of fintechs specializing in B2B payments has grown by more than 33% since 2010, according to BCG's Fintech Control Tower data. That growth has led to a rich variety of payments solutions, including procure-to-pay, accounts payable (AP) and accounts receivable (AR) automation, cross-border payments, and specialized working-capital offerings such as dynamic discounting and supply chain finance.

Wholesale banks cannot afford to ignore these issues. They must take stock of the changing digital landscape and define a clear strategy and approach.

## Wholesale Banks Can Close the Gap in Three Ways

We believe three areas can play an outside role in helping wholesale banks address the expectations gap and provide significant client value. They include building out a strong digital channel presence, rethinking service delivery, and making smarter use of data and analytics.

### EMBRACE A CLEAR DIGITAL STRATEGY

Wholesale banks should rethink their digital channel strategy so that it fits better with evolving treasurer needs. Better aggregation capabilities, for instance, would allow treasurers to track transaction activity across banks without having to access multiple systems. Likewise, designing services that integrate easily with corporate ERP and accounting systems would allow treasurers to avoid time-consuming process steps and improve their productivity. As PSD2 and other regulations open up the banking market, the pres-









sure on wholesale banks to create a more satisfying digital experience will only increase.

We see four emerging digital models that wholesale banks can follow—either individually or in combination—to address customer needs and avoid disintermediation. (See Exhibit 5.)

**Transform the online-banking platform into an open-aggregator platform.** While bank platforms provide rich functionality, treasurers don't want to be wedded to one solution. Transforming a bank's proprietary platform into an open-banking aggregator platform could help banks retain control of the valuable client interface while giving clients an extended 360-degree view of their positions across multiple banks. In doing so, banks should allow clients to access information across banks; provide greater transaction functionality; enable easy ERP integration; and offer liquidity forecasting, working-capital optimization advice, and other data-enabled add-ons.

**Launch an independent-aggregator venture.** Wholesale banks could also choose to develop a nonproprietary market-leading platform

## EXHIBIT 5 | Four Emerging Digital Models for Wholesale Banks

	 TRANSFORM INTO AN OPEN-AGGREGATOR PLATFORM	 LAUNCH AN INDEPENDENT-AGGREGATOR VENTURE	 PURSUE INTEGRATION EXCELLENCE	 ORCHESTRATE BUYER-SELLER INTERACTIONS
The primary benefit for banks	Extend product and service offerings to the bank's current clients	Extend product and service offerings to current clients and clients from other banks	Create a new distribution channel leveraging the bank's product competencies	Own the access point to corporate clients for own and third-party solutions
Key risks	 Preference of corporations for bank-neutral platforms	 Potential synergy loss and cannibalization	 Loss of control of client interface	 Difficulty achieving scale
Critical capabilities	<ul style="list-style-type: none"> <li>Client acquisition</li> <li>Interface design</li> <li>Integrations</li> <li>Partnership development</li> </ul>	<ul style="list-style-type: none"> <li>Client acquisition</li> <li>Interface design</li> <li>Integrations</li> <li>Partnership development</li> </ul>	<ul style="list-style-type: none"> <li>API channel management</li> <li>Partnership development</li> </ul>	<ul style="list-style-type: none"> <li>Client and supplier acquisition</li> <li>Interface design</li> <li>Integrations</li> </ul>

Source: BCG analysis.



that features the same type of multibank aggregation and third-party ecosystem offerings catalogued in the above option but run it as an independent initiative. That structure might appeal to treasurers who are wary of monobank solutions, especially because BCG's survey data shows treasurers increasingly want bank-neutral offerings. Therefore, such a move could be in a bank's enlightened self-interest.

**Pursue integration excellence.** Rather than try to control the client interface, banks could instead elect to integrate their offerings into third-party systems and compete on product and service quality. This option could allow banks to face what is already a growing reality, given that only approximately 12% of corporate treasurers currently rely solely on proprietary banking platforms. Success requires that banks enable key products and services with APIs that can be reused across channels in a cost-effective and scalable way. One leading bank, for instance, created a dedicated API channel with its own P&L to commercialize its banking products and services through third parties. Banks could also engineer solutions that make it easy for clients to integrate bank offerings into the most commonly used accounting or ERP systems. In addition, they could look to commercialize payment functionality for the emerging B2B fintech players that don't have a direct connection to the payments infrastructure.

**Orchestrate buyer-seller interactions.** This approach would allow banks to defend the customer interface in two ways: by offering attractive payments solutions and by creating a convenient bank-managed buyer-seller ecosystem.

Under this model, buyers and suppliers could upload their invoices, integrate payments, and access working-capital solutions. Invoice reconciliation would become significantly easier because both buyer and supplier would be on the same platform. And given that the invoice would also be on the platform and confirmed by the buyer, the model would make it easier to offer working-capital solutions. This orchestrator model would allow banks to directly monetize their platform

investment and cross-sell other products (including giving third parties the option to sell on the platform, with banks taking a percentage of the sale). The marketplace model would also give banks ongoing access to fresh data that they could use to improve credit scoring and liquidity forecasting as well as for other purposes.

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## The orchestrator model lets banks directly monetize their platform investment.

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To succeed with this model, wholesale banks need scale. Focusing on a specific industry vertical and collaborating with other banks to gain critical mass in specific geographic markets are two ways to build scale in the short term. This model can be difficult for banks to advance on their own because the skills and reach required often go beyond the capabilities and networks of traditional banks.

**Determine the right model.** These four options are not mutually exclusive. In choosing the type of engagement model to pursue, banks should consider their client base, their market, their starting position, and their scale. Banks that service a substantial number of large caps, for instance, may want to focus on integration opportunities because large organizations tend to be heavy users of TMS. Mid caps, on the other hand, generally lack the scale to implement top-end software solutions and may be more interested in aggregation solutions with sophisticated working-capital functionality. Small caps usually are satisfied with a bank portal and have less need for aggregation.

With respect to geography, banks in mature markets such as the US, for instance, face greater urgency to digitize their models than banks in Asia-Pacific.

Finally, a bank's size and market position matter. Large banks can afford to invest in several options, while smaller, domestic banks need to be more selective. Likewise, incumbent banks have scale but must cater

to a broad set of needs, while attackers have more limited reach but can be more focused.

#### **GET STRATEGIC WITH SERVICE DELIVERY**

Wholesale banks must also improve service delivery. While longer-term structural changes are important, banks can take several steps immediately. We recommend that they start by applying value-based segmentation. (This is already used in wholesale banks for coverage models and in determining a relationship manager's client load.) Widely used in other industries, this model would allow banks to align their service with the importance, size, complexity, and preferences of different customer segments—providing corporate clients with a superior customer experience while lowering the cost to serve.

Under this approach, banks would tailor the mix of hands-on and virtual service that treasurers receive. They'd provide high-value customers and those that have more complex wholesale-banking needs with a greater share of one-on-one human-guided interaction while enabling those with routine service needs to conduct a greater share of their banking activities using automated self-service. Advances in technology mean that many customer issues and requests can now be handled electronically using digital solutions such as tracking tools for issue identification, self-service modules to address simple problems, and chatbots—with generalist relationship support teams providing backup by phone or email.

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To improve results, banks need to tailor the mix of hands-on and virtual service.

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Early adopters have seen positive results. One European bank recently rolled out a platinum-service offering that assigned the bank's best cash management customers its most senior sales people and provided priority service for such things as cash pool implementations or extended hours for issue resolution or questions. In parallel, the bank also launched an

all-digital solution tailored to the needs of its small-business clients.

The changes meant revamping a number of back-end processes, but the bank lowered costs while sharply improving customer satisfaction. Although small businesses with more basic service needs might be the heaviest users of self-service functionality, large organizations would also value the ability to manage routine needs independently. Simple enhancements such as tools that can upload KYC documents and then automatically validate them against a third-party database don't require change-the-bank budgets and can deliver an outsize return on investment in terms of customer convenience and cost efficiency.

At the same time, banks should also plan for deeper changes to their IT architecture. The goal should be to structurally revise their IT systems to reach full automation and move to a zero-interaction, straight-through-processing model. This longer-term solution would enable banks to create the digital backbone needed to offer robust, digitally enabled personalization, proactive advice, and end-to-end automation. "Smart" automation would also help treasurers address mundane annoyances, such as the handling of stopped payments, which would reduce errors and complexity.

#### **ENRICH THE CUSTOMER EXPERIENCE WITH DATA-DRIVEN INSIGHTS**

Banks sit on troves of valuable transaction data. While many banks already leverage this data for enhanced credit scoring or identification of cross-selling opportunities, they can also use the data to improve service and advice. Cash flow forecasting tools, working-capital efficiency analytics, peer group benchmarks, and payments analytics are among the areas that would, according to BCG survey data, be especially attractive to treasurers. Superior data management and connectivity would also allow banks to improve service quality, giving relationship managers the ability to examine their corporate clients' complete transaction histories and provide tailored recommendations. That could help banks increase client satisfaction and revenue growth.

## Create a Roadmap for Change

Many of the recommendations described in this chapter will take time to implement, especially given the sizable agenda that wholesale banks are already managing. But banks can do three things immediately:

- **Fix the basics.** Many customer journeys offer quick-win opportunities for banks to address chronic customer frustrations. These include improving business partner management, KYC processes, and technical-client onboarding within the account-opening process. The customer service, incident resolution, and cross-border payments journeys also contain a number of process issues that basic automation and account data integration could address. Taken together, these improvements have the potential to deliver substantial benefits in terms of customer satisfaction and efficiency.
- **Fund the transformation.** Wholesale banks need to free up investment resources to enable open banking, support advanced data and analytics, adopt real-time payments, and develop other innovations. Combining and reducing the number of daily banking portals that banks maintain, decommissioning legacy channels, and eliminating redundant or lower-value systems can generate important run-the-bank savings without requiring a deep IT restructuring. In addition,

banks should consider expanding their use of robotics; these tools can reduce labor requirements and serve as an effective transitional solution as banks plan a deeper, more comprehensive IT transformation and future-proof solutions powered by artificial intelligence as well as data and analytics.

- **Partner with third parties.** Wholesale banks should also look at forming selective partnerships with fintechs. The right collaborations would allow banks to access needed capabilities faster and more cost-effectively than building them in-house. With more than 10,000 fintechs to choose from, banks will need to develop formal evaluation criteria, taking into consideration such factors as reliability, ease of integration, monetization, and customer value. This will require a strong governance structure to ensure that banks select partnerships that offer clear added value to customers and that they manage those partnerships effectively. Outsourcing can be another option, one that may be especially helpful to small and midsize banks as a way of gaining scale in needed areas.

By focusing on these three near-term actions, banks can make significant performance gains and lay the groundwork for their larger transformation journeys.

# IT'S TIME TO ACT

**I**N THE RETAIL AND wholesale payments business, customers are becoming impatient with clumsy interactions and inefficiencies. Consumers, treasurers, and merchants are looking for automated, integrated buying journeys and tailored service. They have made it clear that convenient, personalized service both online and offline is essential for doing business. And they are increasingly willing to take their business elsewhere, using digital wallets, fintechs, ERPs, and other services and providers if those needs are not met adequately.

To stay relevant, banks must respond faster and more strategically to the altered payments environment by focusing on the pain points that matter most. With the growing appetite for payments services expected to generate \$1 trillion in new revenue over the coming decade, banks and payments providers have an extraordinary opportunity to expand their business. Success will rest on how willing and committed they are to making the needed business and operating-model changes.

# FOR FURTHER READING

The Boston Consulting Group has published other reports and articles that may be of interest to senior financial executives. Recent examples include those listed here.

**Banking's Cybersecurity Blind Spot—and How to Fix It**

A Focus by The Boston Consulting Group, August 2018

**Global Asset Management 2018: The Digital Metamorphosis**

A report by The Boston Consulting Group, July 2018

**Global Wealth 2018: Seizing the Analytics Advantage**

A report by The Boston Consulting Group, June 2018

**Global Capital Markets 2018: Embracing the Digital Migration**

A report by The Boston Consulting Group, May 2018

**Global Retail Banking 2018: The Power of Personalization**

A report by The Boston Consulting Group, May 2018

**Global Corporate Banking 2018: Unlocking Success Through Digital**

A report by The Boston Consulting Group, March 2018

**Global Risk 2018: Future-Proofing the Bank Risk Agenda**

A report by The Boston Consulting Group, February 2018

**How Pricing Can Solve European Banking's Earnings Crisis**

An article by The Boston Consulting Group, February 2018

**How Banks Can Thrive as Digital Payments Grow**

An article by The Boston Consulting Group, December 2017

**The Power of Digital in Commercial Banking**

An article by The Boston Consulting Group, December 2017

**Why Aren't Banks Getting More from Digital?**

A Focus by The Boston Consulting Group, December 2017

**Global Payments 2017: Deepening the Customer Relationship**

A report by The Boston Consulting Group, October 2017

**Getting Bank Automation Beyond the Pilot Phase**

An article by The Boston Consulting Group, August 2017

**The Seven Rules of Cost Excellence in Banking**

An article by The Boston Consulting Group, August 2017

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