



PAYMENTS PLUS



PAYMENTS UNDER PRESSURE

2019 was the year of the takeover attempt, with Apple, Google, Facebook, and Amazon all announcing major forays into payments and financial services. They are following the lead of Chinese tech giants Baidu, Alibaba, Tencent, and Xiaomi, all of which have succeeded in linking payments and banking into their offerings.

As a new decade dawns, the battle for dominance in payments and financial services is only beginning.

What do all these moves mean for banks, networks, and traditional acquirers? At first glance, it appears they are adopting a more collaborative approach, with Citi joining forces with Google, Goldman Sachs partnering with Apple, and JPMorgan Chase and Bank of America enabling Amazon. In Europe, the largest banks are exploring a banking consortium for new account-to-account payment solutions. In the United States, which has lagged other markets in terms of payments disruption, the result is not yet clear.

What is clear is that there is significant pressure from all sides (including merchants) for the incumbents to transform. The question is whether they can outflank the big tech companies, or whether big tech can use its financial muscle and access to and knowledge of customers to succeed in payments and banking.

In this edition we present an overview of the digital payments market, merchant and customer reactions, alternative lending, and account-to-account payments. Our objective is to highlight market movements and to share perspectives on the complex and exciting evolution of payments, because the winning formula is still very much an open question. We hope you enjoy and, as always, please let us know how we're doing.

Best wishes,

A handwritten signature in dark ink, appearing to read 'Martina Weimart'.

Martina Weimart

Partner and Head of EMEA Payments

PAYMENTS AS A BUSINESS



+ MERCHANT PAYMENTS + CUSTOMER ENGAGEMENT

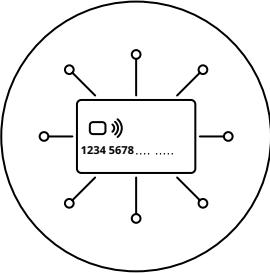
Large merchants are under siege from multiple directions. Intense competitive pressures are driving them to innovate and deliver uniquely differentiated customer experiences that will protect and sustain revenue growth. At the same time, merchants must contend with pressure from investors and shareholders to contain costs – particularly as they grow – by bringing to bear the full heft of their size and scope to secure favorable terms from partners.

These trends are already playing out in the market. Consumers can now pay for their day-to-day necessities using innovative mobile and app-based payment forms. In addition, some large merchants have introduced a range of financial services designed to address core customer needs and drive more e-commerce traffic. Once considered an operational side of the business, payments and now payments-related financial services have become a source of revenue and profitability growth for merchants whose margins in traditional areas

are being squeezed. In some cases, payments and financial services account for a quarter or more of overall profits – even (and especially) when the merchant is not known as a payments or financial services player.

Oliver Wyman recently worked with a large merchant in North America to identify opportunities for payments and related financial services growth. From a long list of potential revenue growth and cost savings opportunities, we worked with the client to prioritize the most attractive opportunities based on potential impact and feasibility. We narrowed the list to a targeted suite of solutions designed to drive engagement in key customer segments via a unified set of new financial products and services and shrink the merchant's cost base for accepting and making payments. The program will improve the merchant's customer base and competitive position and result in more than \$100 million in annual improvement to its bottom line.

PAYMENT SYSTEM MODERNIZATION



+ ASSET EFFICIENCY

+ FUTURE OF PAYMENTS

The bank identification number (BIN) is the first six digits of the primary account number (PAN) and is a fundamental element of the payments ecosystem. A looming shortage of BINs prompted the International Organization of Standardization (ISO) to announce an industry-wide migration from six- to eight-digit BINs. Beginning in April 2022, payment networks will assign their card issuers with eight-digit BINs.

The implications of the shift could be significant, because each six-digit BIN can effectively spawn 100 eight-digit BINs. The payments ecosystem needs not only to prepare systems for the change, but also to adjust BIN management and card PAN assignment strategies.

Oliver Wyman is working with participants to better understand and plan for the shift across numerous facets including system readiness, BIN management, PAN assignment, and BIN rationalization. Most issuers have far more BINs than they need and would benefit from further concentrating activity to use their BINs more efficiently.

Time is of the essence. While April 2022 seems far off, many firms already have issued cards with expiration dates after April 2022. Changes to BIN strategy (such as concentrating issuance in fewer BINs) could take years as issuers, and the processors that support them, likely wish to avoid reissuance. Systems readiness is also time-sensitive, because any required changes need to force their way into crowded development roadmaps.

ALTERNATIVE LENDING



+ PAYMENTS ECOSYSTEM + MERCHANT CREDIT

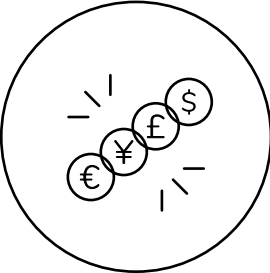
There is a credit gap in most Latin American countries. A large portion of the region's residents do not have access to financial services, and only 25 percent of the credit demand from micro, small, and medium enterprises (MSMEs) is being met, leaving a gap of more than \$1 trillion.

Regulatory and technological advances are starting to improve this grim situation for borrowers. A host of forces present opportunities for players to expand into credit, from active data ownership to the emergence of different data sources and analytical techniques to assess cash-flow behaviors and creditworthiness. Payments players such as merchant acquirers, with direct access to MSMEs and their transactional histories, are particularly well-positioned to succeed.

Oliver Wyman is working extensively with payments providers and acquirers to develop market-entry strategies and design small-to-medium-size enterprise credit platforms in Latin America. We recently helped one of our global clients evaluate its merchant credit opportunity by defining its target client segments, customer value proposition, product features, and a distribution approach that would create a winning credit offering. With the strategy clearly articulated, we designed the credit platform and processes for the offering, selecting a combination of analytics vendors, fintech, and banking-as-a-service providers to build it.

This enterprise, currently underway and projected to break even one year from launch, is proof that building effective credit ecosystems is increasingly more collaborative and modular.

OPTIMIZING PARTNERSHIPS



+ INTERNATIONAL PAYMENTS AND FRAUD + FUTURE PROOFING

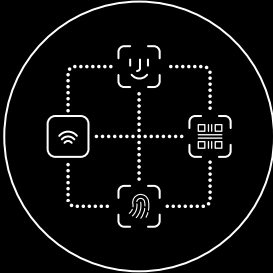
At a time of rapid change in the payments field, strong third-party providers are more strategically important to merchants than ever before. For merchants that operate globally, payments partners must provide the right mix of local forms of payments, input on compliance requirements, insight into managing fraud risk across regions, and other elements to ensure success.

As the payments environment evolves, merchants are reevaluating whether their current partners fully align with their strategic objectives. This brings challenges on its own. How can merchants embarking on an RFP hope to cut through the noise and select a true best-in-class partner?

Oliver Wyman recently worked with a merchant to achieve significant revenue upside through a payments and fraud management partnership strategy.

In close collaboration with teams across the enterprise and from different markets, we identified the most important partner requirements to optimize the customer experience and reduce operational pain points. We then evaluated various partnership strategies, tapping into our deep knowledge of the industry. The client was able to go to market with a clear sense of what a best-in-class partner should provide, resulting in enhanced payments and fraud operations for the client and for customers.

INSTANT PAYMENTS



+ PAYMENTS TRANSFORMATION + COMPETITIVE ADVANTAGE

The need for immediacy in the digital world is driving the development of instant payments (also known as real-time payments and faster payments). The opportunity lies in the fact that a business can do virtually everything with instant payments, from account-to-account payments and bill payments to merchant payments (both in-store and online) and corporate payments. Instant payments have the potential to replace every existing payment method, including cash, if developed into an end-to-end solution.

Instant payments are an opportunity for banks and other traditional providers to compete not only against the current crop of dominant solutions but also against Facebook, Apple, and other big tech firms. They could allow banks and traditional providers to regain control of the payments business model and optimize costs.

Many hurdles remain for instant payments to fully compete with cards, from global acceptance to features like disputes/chargebacks and merchant confirmation of payment. But these obstacles can be overcome.

Oliver Wyman advises global and domestic companies across their instant payments initiatives. We are at the forefront of devising the strategies and business models, and also delivering the technological infrastructure, for some of the largest companies to bring their instant payments solutions to market. We believe instant payments have the potential to one day replace everything we have known so far in the payments world.

Insights

Oliver Wyman continuously invests in a broad range of proprietary analyses to develop new insights. Our intellectual capital draws from primary research with consumers, small businesses, issuers, and merchants, as well as exclusive partnerships with a number of data providers.

DIGITAL PAYMENTS

The Evolving Digital Landscape

As consumers' everyday lives become increasingly digital, their payments are growing more and more digital as well. A quarter of all debit and credit card payments are now made digitally, and digital payments are growing three times faster than physical payments.

These changes have profound implications for the providers of these payment accounts and mechanisms. Most industry studies of digital payments survey consumers who self-report on the digital payments landscape. However, this approach is likely to provide only a partial view of the digital transformation happening today.

Oliver Wyman Digital Payments Study

Oliver Wyman's Digital Payments Study aggregates actual usage data from financial institutions. Through the lens of the funding account (demand deposit account or credit card) and different use cases, this study furthers the understanding of customers' digital payments habits. The 2019 study collected data from a large, representative set of financial institutions with about 75 million consumer DDAs and approximately \$6 trillion in total assets, on key developments in digital commerce, mobile payments, and account-to-account payments.

Leading Digital Commerce Merchants

The top five digital merchants are similar for both debit and credit cards and account for approximately 40 percent of all digital commerce transactions. Amazon represents almost as much activity as the next four merchants combined.

Top 5 merchants (Debit)

Amazon
Uber
iTunes
Lyft
Netflix

Total Share ~40%

Top 5 merchants (Credit)

Amazon
iTunes
Uber
Netflix
Walmart

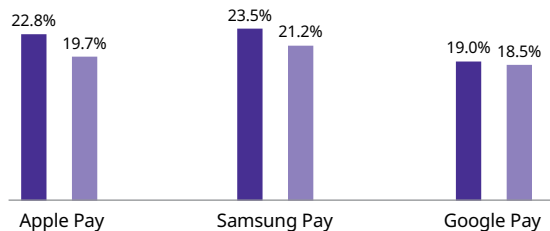
Total Share ~40%

Mobile Payments Activity

On average, only one in every five enrolled cardholders transacts using one of the “Pays” (Apple, Samsung, or Google) and performs about one transaction a month.

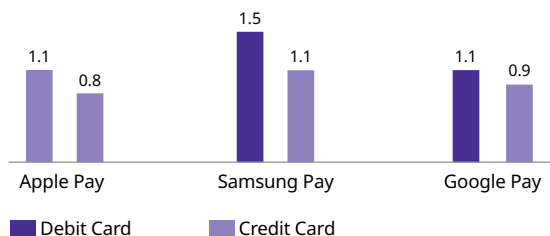
Percent of enrolled cards used for at least one purchase per year (“active rate”) (2018 numbers)

Active rates are comparable across the three Pays...



Monthly transactions per enrolled card (“usage”) (2018 numbers)

...however, there are perceptible differences in usage



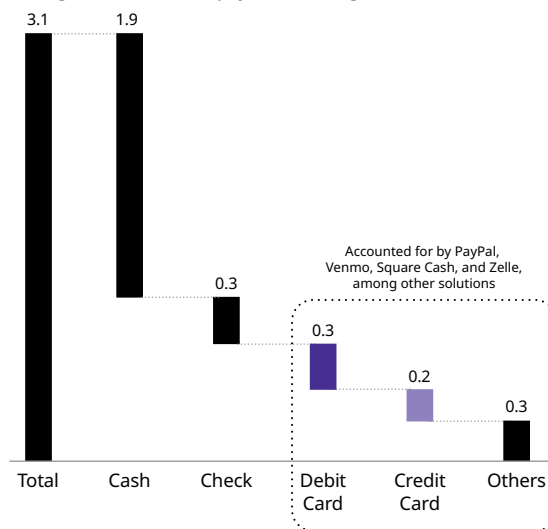
1. 2017 Survey of Consumer Payment Choice - Federal Reserve

Account-to-Account (A2A) Payments

A2A solutions, among other digital offerings, account for only about 30% of total A2A payments, indicating the opportunity for future digital A2A growth.

Average number of monthly A2A payments by payment instrument (2017)¹

Consumers perform 3.1 A2A payments per month on average, with ~70% (2.2 payments) using cash and check



Perspectives

Oliver Wyman works closely with industry leaders, regulators, and academic experts to develop and deliver breakthrough solutions based on our deep understanding of issues and developments on the ground and across businesses.

MANAGING DISRUPTIONS

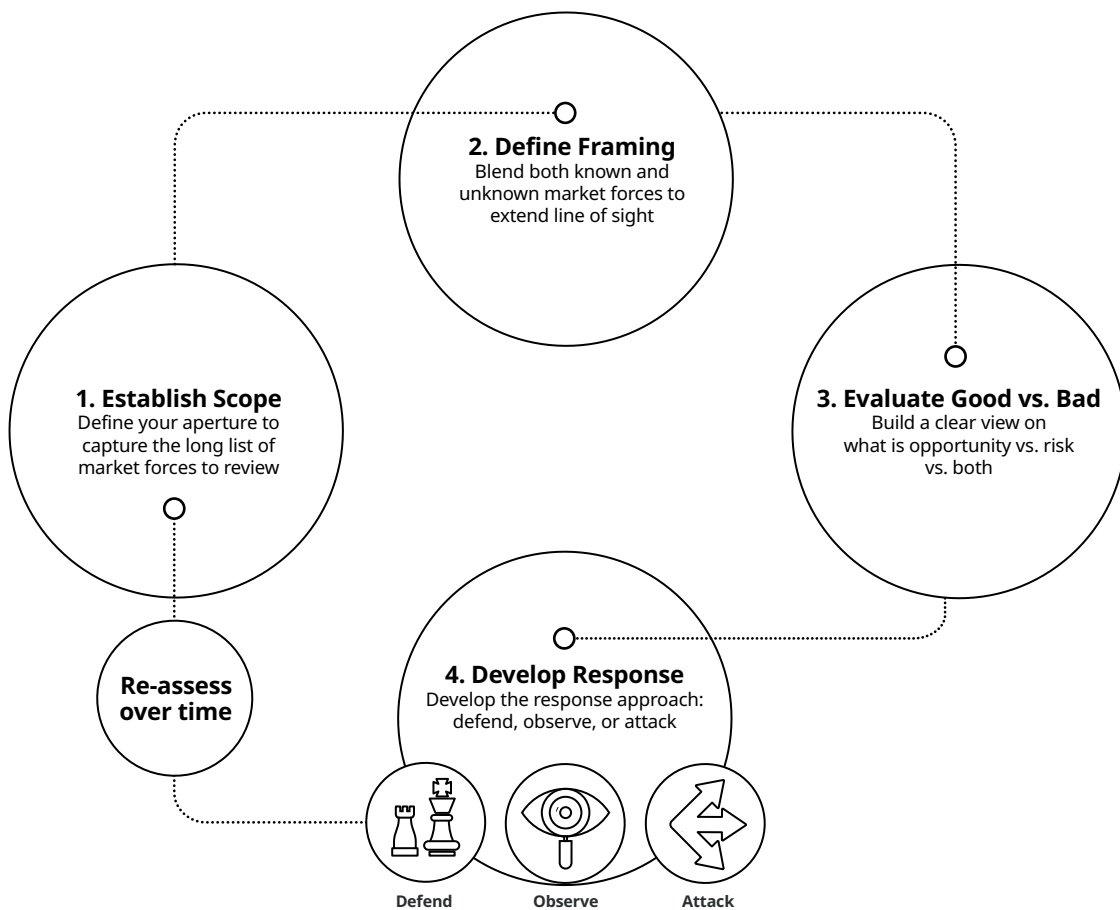
Change is Inevitable

Disruption is an oft-used term in the payments industry and can mean different things to different players. For example, what is considered innovation for a payments provider can be disruptive to a card issuer. Similarly, a change in regulation that is intended to benefit consumers can upend the operating models for providers. Regardless of the nature and intensity of these changes, payments players should have an established framework to monitor, prioritize, and react to disruptive forces in the payments industry.

Oliver Wyman Framework for Payments Disruption

By virtue of our work with issuers, infrastructure providers, merchants, investors, and regulators in the payments arena, we have developed and refined a framework to help participants in the payments industry manage disruption. The framework should be adapted and tailored based on your own capabilities, footprint, and future strategy.

Oliver Wyman Response Framework



REPORTS

Oliver Wyman publishes a broad range of points of view across industries. A sample of our recently released intellectual capital is shown here. All of our reports can be accessed on our website.



Women In Financial Services 2020



It's Time To Upgrade The Way Banks Plan



The Coming Wave Of Consolidation Of US Regional Banking: Reasons For Skepticism



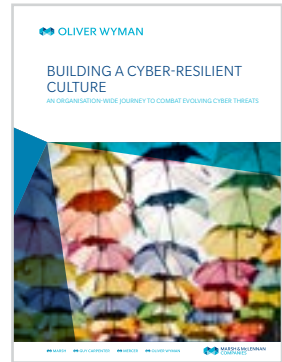
The Future Is Biometric



Sail Through, Optimize,
Or Transform?



China (Re)Entry For
Globals



Building A Cyber-Resilient
Culture



The Healthcare Leader
Of The Future



The State Of The Financial
Services Industry 2020



Turning The Corner:
Perspectives On The
Final US Tailoring And
Resolution Planning Rules

CELENT

Celent, a division of Oliver Wyman, is the leading subscription research and advisory firm focused on financial services technology.



Best Practices In Retail Banking Customer Acquisition



The Digital Mortgage Future Starts Now



Life Insurance Company Of The Future: Insurer Transformation



The Battle For The Last Mile Of Trading



Talking Heads: Burning Issues In Payments And Open Banking



Customer Identity And Authentication: Core Capabilities and Vendor Landscape



Mitigating Cyber Threats In Banking With Next-Generation Platforms



Digital Transformation In Insurance



Retail Loan Collections Solutions



Top Trends In Corporate Banking 2019-2020: Tipping The Scales In Banks' Favor

EVENTS

February 11-13 | Atlanta

Merchant Advisory Group 2020 Mid-year Conference

Beth Costa will moderate three panel discussions:

- **What's Happening In Payments Around the World?**
The panel will discuss how payments are evolving globally and the implications for consumers and merchants.
- **SRC: A New Digital Payment Experience**
The panel will explore how merchants can evaluate integration options with different secure remote commerce providers and their value proposition.
- **Special Interest Group (SIG) on Customer Experience**
The panel will explore best practices to address common technology issues and barriers, omni-channel strategies, and ways to leverage analytics to better understand the customer journey.

Rob Mau and Rick Oxenhandler will lead a breakout session on “**Going Global: How to make Payments a Competitive Advantage in New Markets.**” The session will cover Oliver Wyman’s Global Payments Framework with a focus on how best to link corporate strategy to payments customer experience, local operating models, and implementation considerations.

May 18-20 | Miami

PaymentsSource Card Forum 2020

Joshua Gilbert will serve as the co-chair for this year's conference. The event will focus on helping payments providers stay ahead of payments disruption in the form of pricing pressures, evolving customer engagement models, and technological innovation.

PAYMENTS + BRAND

PAYMENTS + DIGITAL

PAYMENTS + STRATEGY

PAYMENTS + OPERATIONS

PAYMENTS + TECHNOLOGY

PAYMENTS + PARTNERSHIPS

PAYMENTS + DUE DILIGENCE

PAYMENTS + DATA & ANALYTICS

PAYMENTS + RISK MANAGEMENT

PAYMENTS + CUSTOMER EXPERIENCE

PAYMENTS + ORGANIZATIONAL EFFECTIVENESS

Oliver Wyman is a global leader in management consulting
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