

# TWO WAYS TO WIN IN PAYMENTS

Banks can add value in the world of  
Instant, Invisible and Free payments via scale and differentiation

# What the global payments industry is becoming, and could become, continues to give incumbent banks reason to worry.

Market trends are converging on a future where payments are inevitably becoming instant, invisible and free (IIF). In this new payments world, how will incumbent banks add value and raise their game? What can they do now to reinvent themselves for IIF payments? How can banks both mitigate and capitalize on the upcoming payments disruption to grow customer loyalty, revenues and profitability?

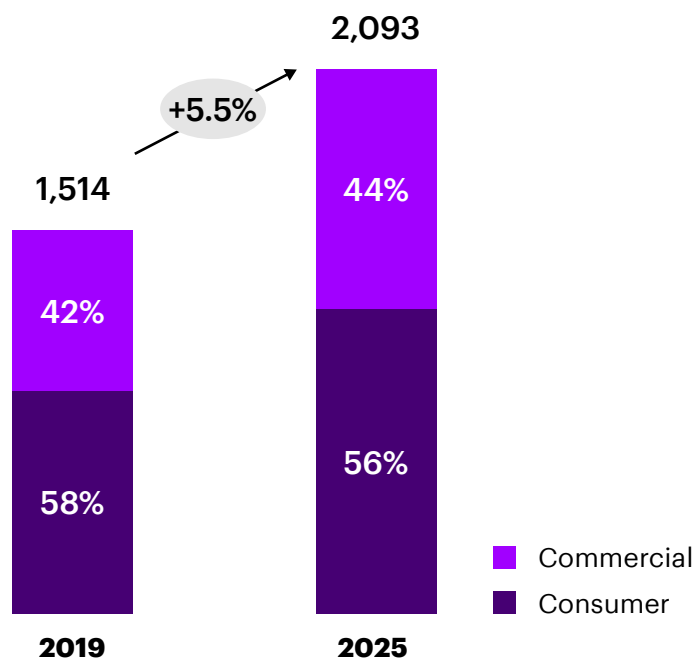
We recently posed these and other payments-related questions to 240 payments executives at banks from 22 countries. Drawing upon our deep experience in the payments industry and findings from the Accenture Global Payments Pulse Survey 2019, we see two complementary, interconnected and interdependent ways on how banks can use innovation to add value in the IIF payments world and win big: via scale and differentiation.

# \$500 BILLION IS UP FOR GRABS

We estimate that global payments revenue is likely to grow at a respectable compound annual growth rate of 5.5 percent to reach US\$2 trillion over the next six years (Figure 1).

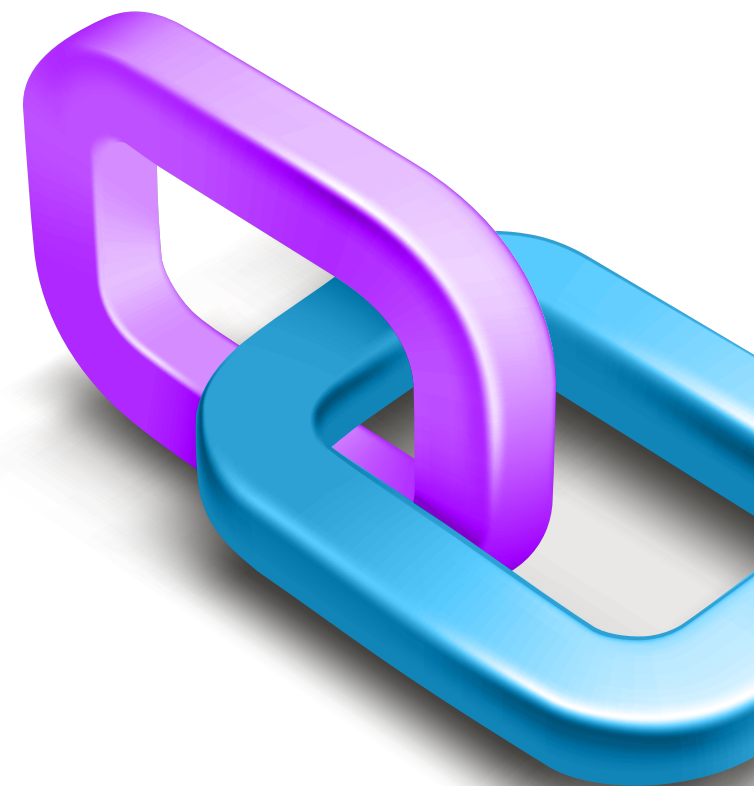
Consumer payments accounts for 58 percent of this total revenue and are expected to grow at 5.1 percent by 2025; corporate payments comprise the rest and are expected to grow at a slightly faster 6.1 percent.<sup>1</sup> Non-cash transactions are expected to grow at 5.0 percent over the same period.<sup>2</sup> This projected growth is offering banks that operate in the payments industry the chance to grab US\$500 billion in incremental revenue.

Figure 1. Global payments revenue

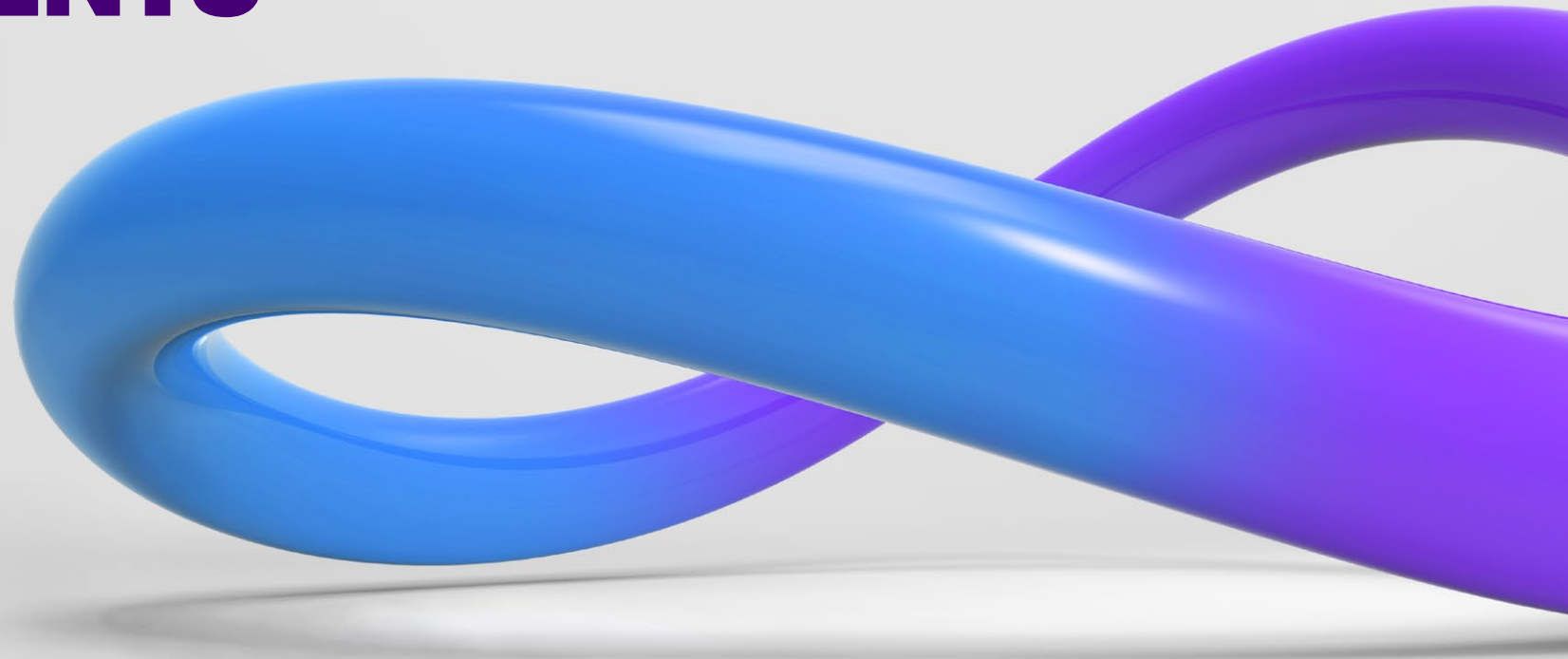


\*RoW = Latin America + Middle East and Africa

Source: Accenture Research Global Payments Revenue Model



**BUT, SEIZING THIS  
OPPORTUNITY WON'T BE  
EASY IN THE NEW WORLD  
OF IIF PAYMENTS**



## Capturing the revenue growth opportunity of payments won't be easy for those banks which are unable to shift to digital business models, a critical mission for winning in an IIF payments world.

We see a mix of progressive and disruptive market drivers at work. These include customers' and merchants' rising expectations for speed and convenience; technical innovations like open APIs, Internet of Things and high-speed mobile connectivity; AI and blockchain; digital and regulator-driven fee compression; national infrastructure upgrades; and new providers entering the market, such as third-party payment initiation service providers. The combination of all of these trends is what leads us to the conclusion that we are heading towards a new world in which all payments are IIF.

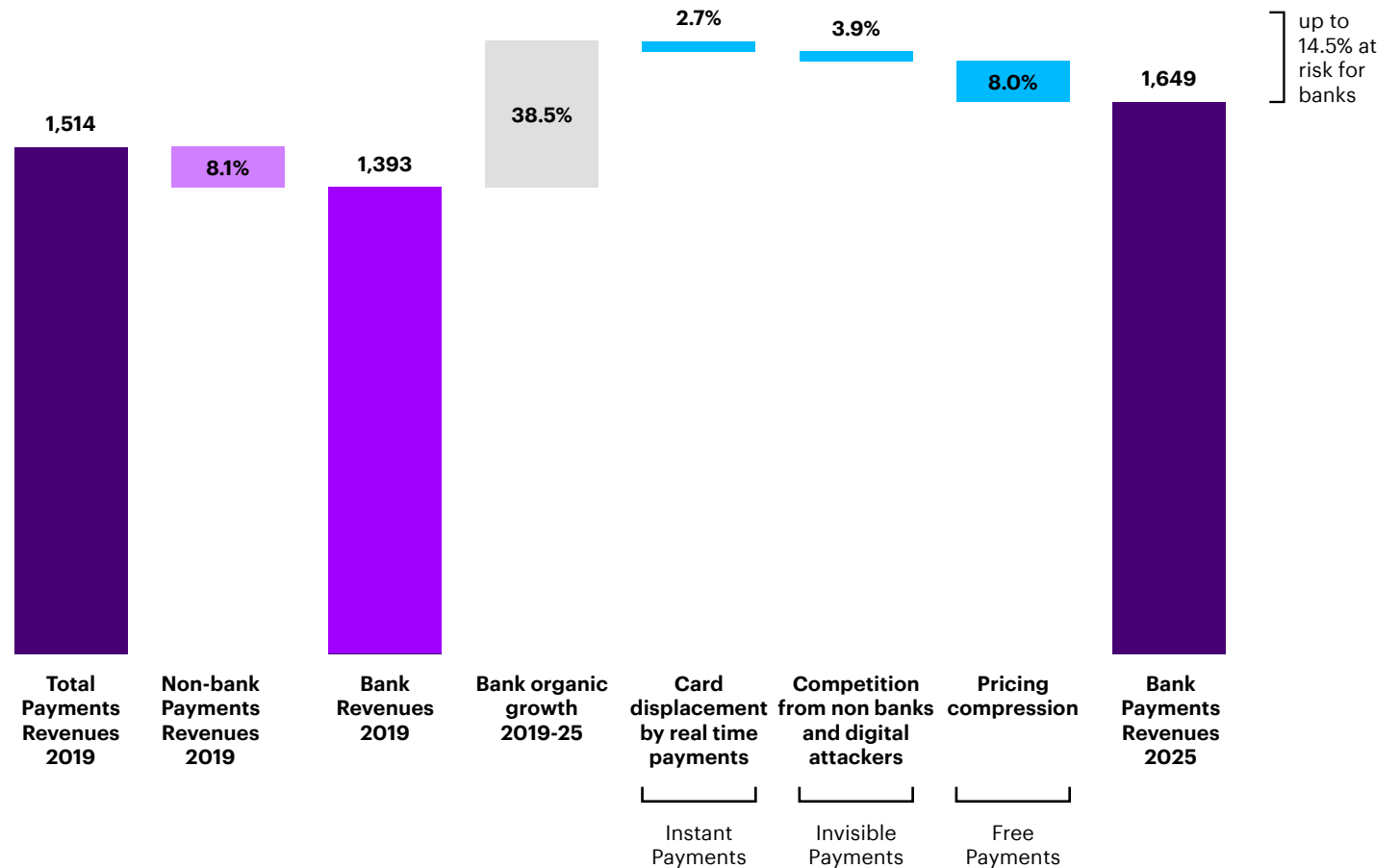
Forty percent of the banking payments executives we polled see payments as already being instant and another 38 percent say that payments will become instant over the next 12 months. More than 90 percent of bankers globally (98 percent in Asia Pacific) agree that payments are becoming more instant for business-to-business transactions. In fact, 46 countries now have in place an instant payment solution and 12 more plan to implement one soon.<sup>3</sup> UK's Request to Pay, set for launch this year, is a secure messaging service that will be overlaid on existing payments infrastructures as a flexible way to settle bills between businesses, organizations and friends.<sup>4</sup> PayPal, as another example of this trend, is partnering with banks and card issuers to offer its Instant Transfer capability to individuals and small businesses in North America, giving them quick access to their money.<sup>5</sup> Finally, Ripple is using blockchain technology to make cross-border payments easier and instant with minimal fees and that, in turn, is stimulating established cross-border payment players, like Swift, to up their innovation game.<sup>6</sup>

On average, 77 percent of respondents agree that payments are generally becoming more invisible as they are progressively incorporated into third-party apps or devices, such as wearables, digital wallets, IoT devices and smart contracts. Seventy-three percent believe payments are already invisible or will be so over the next 12 months; even more so for consumer-to-consumer (84 percent) and consumer-to-business (83 percent) payments. Uber is a prime example of a service that takes physical payment options, such as cash, cards and wearables, completely out of the equation. The no-checkout-required Amazon Go retail store is another good example. With its Just Walk Out Shopping experience, shoppers simply use the Amazon Go app to enter the store, take the products they want and leave with no lines and no checkout.<sup>7</sup>

Seventy-one percent of bankers and payments executives agree that payments are becoming free. That number is greater in Europe (93 percent) and Asia Pacific (75 percent) where fee income accounts for the lion share of total payments revenue compared to North America (61 percent) where the revenue pool is more diverse. Consider that consumer payments for debit card revenue per transaction dropped 14.6 percent, from \$0.34 in 2015 to \$0.29 in 2018.<sup>8</sup> Credit card revenue per transaction dropped 11.6 percent, from \$1.21 in 2015 to \$1.07 in 2018.<sup>9</sup> In corporate payments, credit card revenue per transaction dropped 33.3 percent, from \$2.76 in 2015 to \$1.84 in 2018.<sup>10</sup> We are also seeing increased regulatory pressure on fees, including the recent European Central Bank restrictions on non-EU card transactions in Europe and the plenty of new entrants, like Revolut, that are building their customer proposition on lower payment fees.

The impact of IIF payments will be significant. Based on our analysis, it is likely to decrease the payments revenue pool by 15 percent by 2025 and may cost complacent banks up to \$280 billion in revenue opportunity loss, globally (Figure 2). While the volume/value tradeoff is still driving growth in total payments revenue, our survey results clearly show an acceleration towards IIF.

**Figure 2. Global payments revenue at risk (US\$B)**

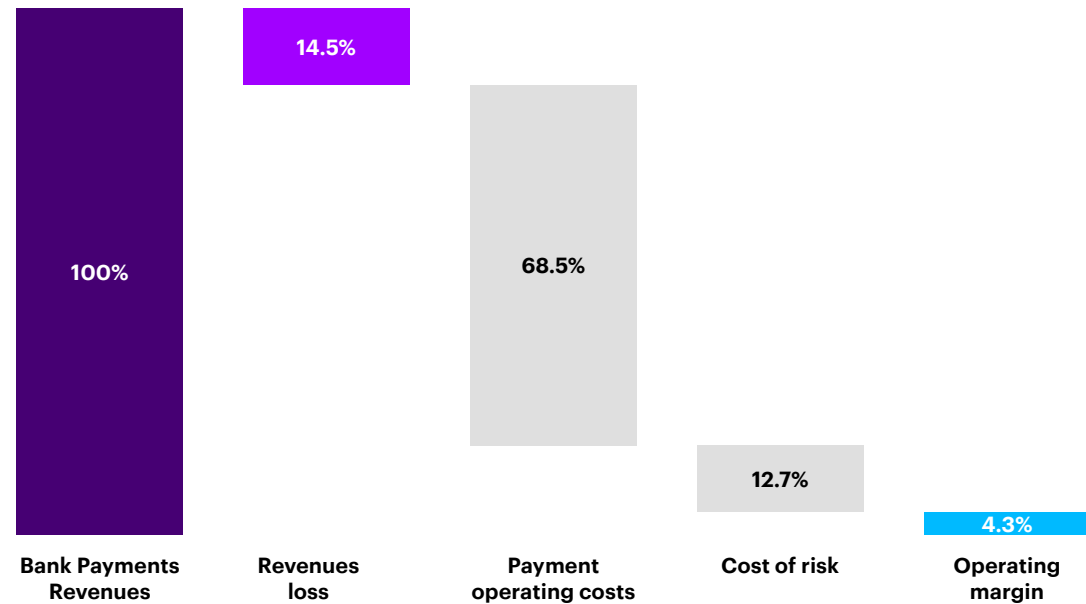


Source: Accenture Research

We also estimate that IIF payments could push the operating margin for payments down to 4.3 percent by 2025 (Figure 3).

With such compression, margins may become razor thin and even negative for the least-efficient players.

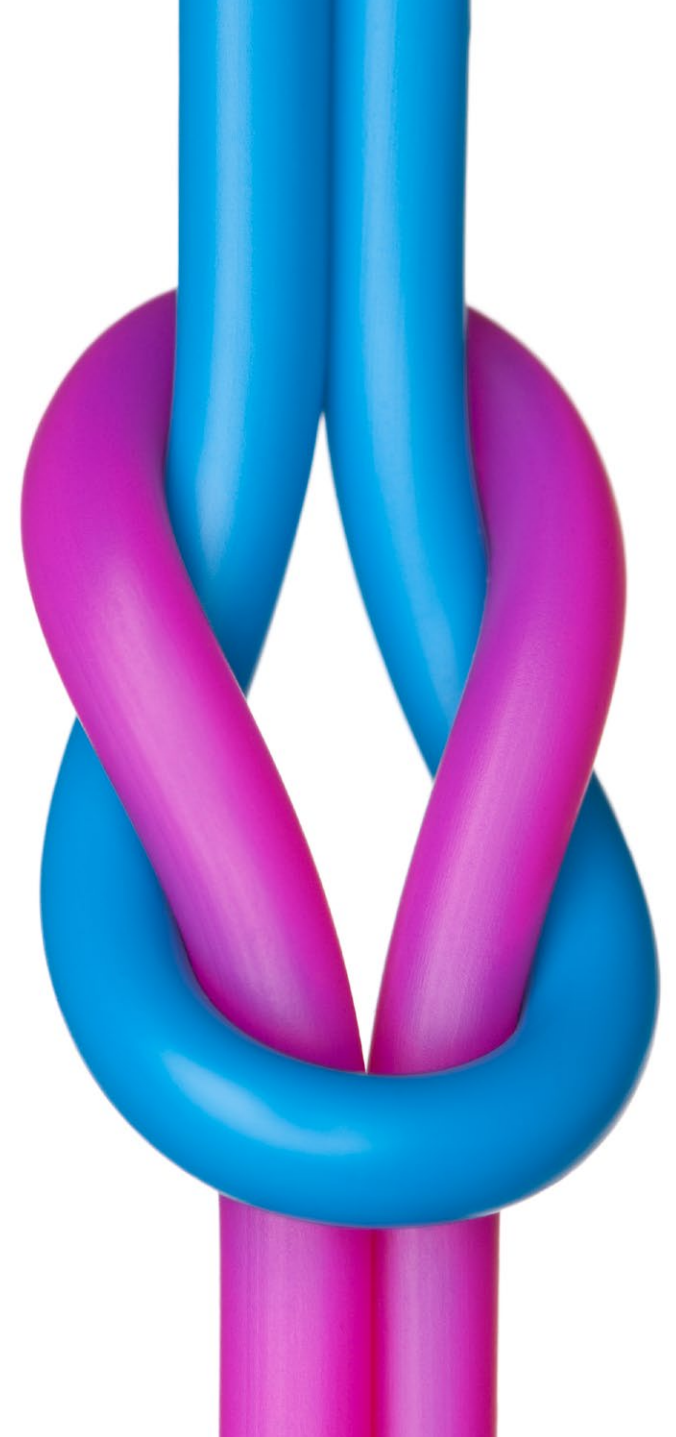
Figure 3. Global payments operating margin at risk by 2025



Source: Accenture Research on annual reports

# TWO WAYS PROVIDERS CAN EXTRACT MORE PAYMENTS VALUE

To protect the economics of their payments businesses, banks will need to define their business and innovation strategies around two approaches that address the challenges of IIF payments. First, scale technology to reimagine how their core payments operations are done to ensure that they continue to benefit from the volume/value tradeoff and second, differentiate themselves by adding value in a low-margin, high-volume business.





# CREATING SCALE BY REIMAGINING HOW PAYMENTS ARE DONE

## Innovation in scale is how banks can address new competitors, market oversupply and maintain differentiation.

There's a host of digital payment solutions available today, many of them powerful and popular. It has created a global environment of undeniable oversupply, despite customers' increased demand for instant payments and settlements. Consider that every year the number of unique fintech payments companies (that also receive funding) skyrocketed 97 percent from 2015 to 2018, based on our analysis.<sup>11</sup> This is exacerbated by the growing pervasiveness of embedded payments that are being completed via smart assistants or third-party or branded mobile apps—adding to the abundance of payments options.

What's driving this invisibility and disintermediation? According to our survey respondents, it is customer experience at 28 percent and efficiency at 27 percent.

So, when providers in the IIF payments world lose speed as a distinguishing factor, they will need to set their sights on leading in price, service and overall quality. Improving any one of these requires the ability to act quickly and with precision.

In essence, the must-do play is scale. Being able to quickly develop secure, convenient and completely frictionless payment experiences through digital services and capabilities without any significant increase in costs (including regulatory compliance and IT maintenance/upgrade) isn't just an operational aspiration; it's both a matter of survival and ambition.

Leaders get it. They are implementing scale initiatives, such as consolidation, to grow quickly and efficiently and remain competitive. Fiserv, for example, is buying First Data<sup>12</sup> which should enable it to offer a wider range of technology-powered payments and financial services—from card issuer processing to the Clover™ cloud-based point-of-sale solution. Online payment processor Stripe acquired a laser focus on, first, principles, smart processes and effective hiring to scale its business, growing its employee base to more than 1,400 people and processing billions of dollars for millions of users worldwide.<sup>13</sup> Fintechs, in general, are tapping into the customer base and stable capital pools of banks to reach both customer and efficiency scale.

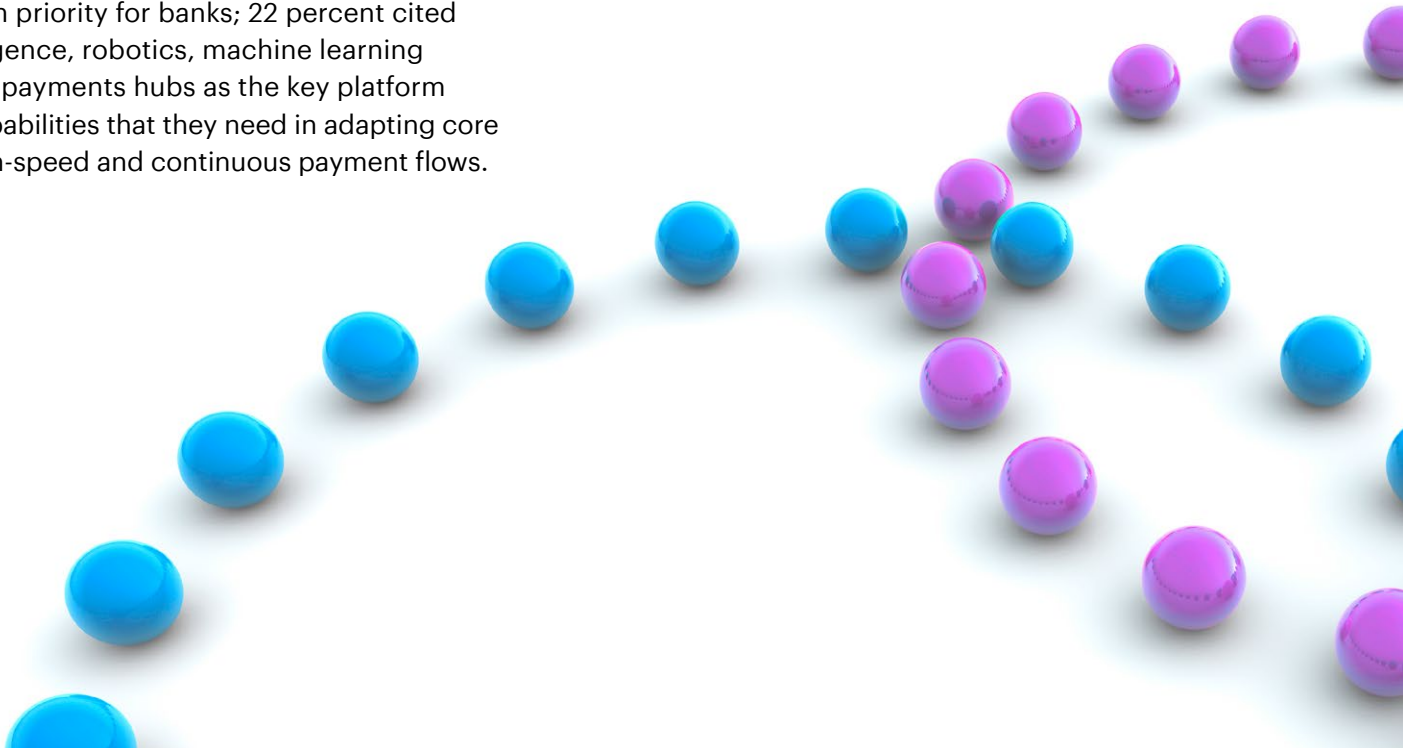
# Players can focus on two key actions to optimize their efforts around scale.

## 1. Drive down costs faster than their revenue decrease to ensure that the volume/value tradeoff remains positive.

This means establishing greater economies of scale in reaching enough new customers at a pace necessary to justify further investment in digital innovation and capture moments of scale and growth opportunities. Tactical examples of this include pursuing inorganic growth to increase scale and reduce unit costs, attracting new customers and revenue streams through new value-added services and playing the volume game on price by massively lowering remittance margins in exchange for higher volume.

## 2. Obtain the technological abilities, such as intelligent automation, to process payments innovation at scale.

In our survey, 18 percent of respondents said that building security into the retail payments transaction will be the main priority for banks; 22 percent cited artificial intelligence, robotics, machine learning and innovative payments hubs as the key platform technology capabilities that they need in adapting core systems to high-speed and continuous payment flows.



# FINDING NEW MARKET DISTINCTION IN THE EYES OF CUSTOMERS

**In the IIF payments world, differentiation will go to whomever owns the customer relationship. Rather than become the dumb-funding platforms for other companies' information-rich payments businesses, banks must find new ways to add value to customers, make money and grow.**

That being said, a piece of banking that is making lots of money and growing is transaction services. Revenues at the 10 largest global transaction banks hit an eight-year high in 2018 due in large part to a cash management surge and stabilization in traditional trade finance.<sup>14</sup> Important opportunities still exist in certain payment areas, such as FX. For example, the flow of money between individuals across national boundaries totaled \$689 billion in 2018, benefitting companies such as Western Union and Moneygram<sup>15</sup> but also creating an attractive market opportunity for new entrants, like Transferwise.



# To build off that money-making momentum, banks can draw on three tactics to better differentiate their payments business and increase revenue and profitability.

## 1. Customer-centric value-added services

Focus on customer-centric and value-added services, even if the payment itself is free. This might include building an aggregator role in the online, mobile and instant payment segments, and developing cross-channel payment platforms (for example, PoS, APIs and microservices). Or, establish digitalized and differentiated customer experiences for priority segments, such as tailoring service packages for commercial payments.

Stripe, for example, offers online payment processing for e-commerce businesses of all sizes through a suite of payment APIs.<sup>16</sup> BBVA and other banks are launching apps for ordering ahead and paying through the app. The apps automate payments but also lets customers reserve a table, order food, pick it up, check the bill, pay the bill and so on without waiting in line.<sup>17</sup> These types of integrated payments are now becoming standard in many quick service restaurant chains around the world, helping improve the dining experience.

## 2. Open Banking for corporates

Borrow from the retail business as a model and zero-in on providing the last-mile of connectivity to offer solutions to corporate customers as part of Open Banking ecosystems, even if it is invisible to the end customer. For 17 percent of the survey respondents, establishing internal start-up incubation units that are isolated from legacy processes to boost innovation will be the main priority for banks.

## 3. Data monetization

Focus on monetizing data flows—selling raw data or delivering actionable insights—arising from payments activity to compensate for core payments becoming free, even if data plays are still early in their maturity cycle. Modern data analytics enables new levels of target segmentation where banks and their corporate clients can plan and execute more relevant products and services based on much broader consumer

insight, far beyond the typical of income, gender, marital status and location. Based on our research, 69 percent of banks aspire to sell raw data within three years. Already 20 percent of banks monetize data delivering actionable insights and 75 percent aspire to do so in the next three years. However, customers' data protection concerns (14 percent) and operational complexity (13 percent) are the top barriers to monetizing customers' data.

Fraud management is a good example of a data-driven service. Other forms of data monetization, such as offer presentment and redemption, are far less developed. The potential for data monetization remains strong but will evolve over the long term with services more loosely aligned to core processing while other data monetization services progress more slowly from concept to revenue generation.

# UNLOCK SCALE, DIFFERENTIATION OR BOTH

IIF payments are no longer a question of if, but how soon. And when they come, how will traditional payments players protect the economics of their payments business, differentiate themselves, stay relevant and make money? Those that embrace and acquire the ability to scale their businesses and deliver for their customers will be positioned for breakthrough outcomes, including differentiating experiences...even in the IIF payments world.

Accenture Payments can help. We assist payments providers in transforming their payments systems and operations to grow and win in the digital ecosystem. We offer services that support the entire payments value chain and can help improve provider costs and value outcomes—thus creating innovative, compelling payments offerings and experiences for businesses and consumers.

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## About the Accenture 2019 Global Payments Survey

Accenture conducted an online survey of 240 retail and corporate payments executives globally from the largest banks in the following countries: United States, Canada, United Kingdom, Germany, France, Spain, Italy, Sweden, Finland, Denmark, Norway, Australia, Japan, India, Hong Kong, China, Singapore, Thailand, Indonesia, Malaysia, United Arab Emirates, Brazil and Mexico. The survey was conducted between February 14, 2019 and March 10, 2019. The overall margin of error is +/- 1.55 percentage points at the midpoint of the 95th percentile confidence level.

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