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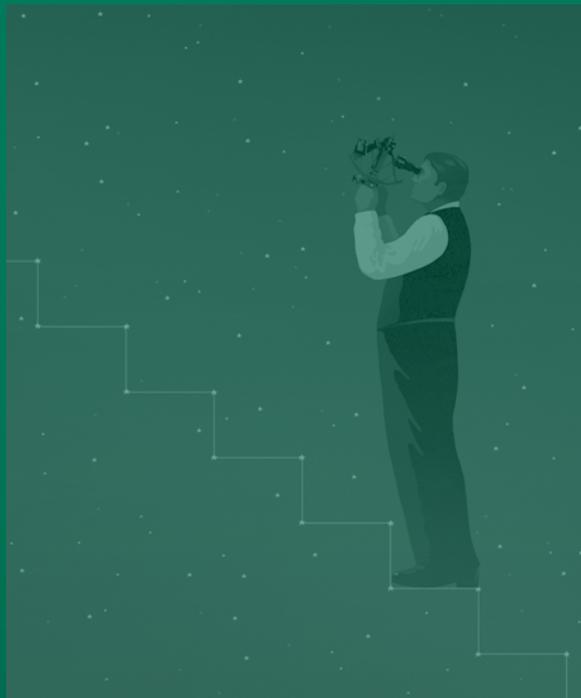
THE BOSTON CONSULTING GROUP



GLOBAL PAYMENTS 2014

CAPTURING THE NEXT LEVEL OF VALUE

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INTRODUCTION

THE PAYMENTS AND TRANSACTION-BANKING businesses continue to represent vital elements of the banking industry and the global financial-services landscape. The importance of these businesses both as critical sources of stable revenues and as the foundation of customer relationships and loyalty has grown steadily in recent years and shows no signs of slowing down. The growth in payments and transaction banking, moreover, is driving stiff competition among not only traditional players but new entrants as well. Consequently, financial institutions must differentiate themselves, refine their strategies, and raise their execution skills if they want to remain competitive.

In this twelfth edition of The Boston Consulting Group's Global Payments report, we offer a comprehensive overview of the industry. We then take a regional approach to retail (consumer) payments—exploring the most important trends in Europe, North America, and rapidly developing economies (RDEs, also commonly referred to as emerging markets)—before closing with a global examination of the wholesale transaction-banking business. In preparing this report, we have for the third consecutive year collaborated with SWIFT, the global provider of secure financial-messaging services.

This year also marks the debut of BCG's Global Payments Model Interactive, to be found on www.bcgperspectives.com, which explores how regions and segments of the payments market will shift from 2013 through 2023. The interactive provides extensive detail on the volume and value of noncash transactions worldwide.

We define payments revenues as the direct and indirect revenues generated by noncash payment services (excluding interbank transfers). They are the sum of the following:

- *Account revenues*: spread income on current account balances (also known as checking or demand-deposit accounts) and account maintenance fees
- *Transaction revenues*: transaction-specific revenues on cards (interchange fees, merchant acquiring fees, and currency conversion fees for cross-border card transactions); fees per transaction on a percentage or fixed basis for noncard payment types; fees for overdrafts and nonsufficient funds; and monthly or annual card membership fees
- *Credit card spread (net interest income) and penalty fees*

Retail payments are transactions initiated by consumers, and wholesale payments are transactions initiated by businesses or governments.

This year's report incorporates two new revenue components: net interest income and penalty fees on credit cards as well as merchant acquiring fees. These additional revenue sources represented nearly \$300 billion in revenues in 2013, or 30 percent of total payments revenues. All told, payments revenues were approximately one-quarter of total global-banking revenues.

Our aim in *Global Payments 2014: Capturing the Next Level of Value* is to provide institutions that are active in the payments and transaction-banking businesses with a solid understanding of major changes shaping the industry, as well as with our perspectives on the underlying drivers. We also offer recommendations on which specific actions should be taken by various types of players in order to achieve or maintain market-leading positions. In today's ultracompetitive "new normal" environment, no institution can afford to stand pat.

OVERVIEW

STRONG GROWTH IS POISED TO CONTINUE

WE EXPECT THE NEXT ten years to continue to bring substantial growth in the payments and transaction-banking businesses. But these years will also bring disruptions, as economic models shift owing to digital technologies, regulation, intensifying competition, and new market entrants challenging incumbents. The many faces (and interfaces) of payments will change as successful innovators gain market share.

The \$2 Trillion Prize in 2023

In 2013, payments businesses generated \$425 billion in transaction revenues, \$336 billion in account-related revenues, and \$248 billion in net interest income and penalty fees related to credit cards. The total represented roughly one-quarter of all banking revenues globally. Banks handled \$410 trillion in noncash transactions in 2013, more than five times the amount of global GDP.

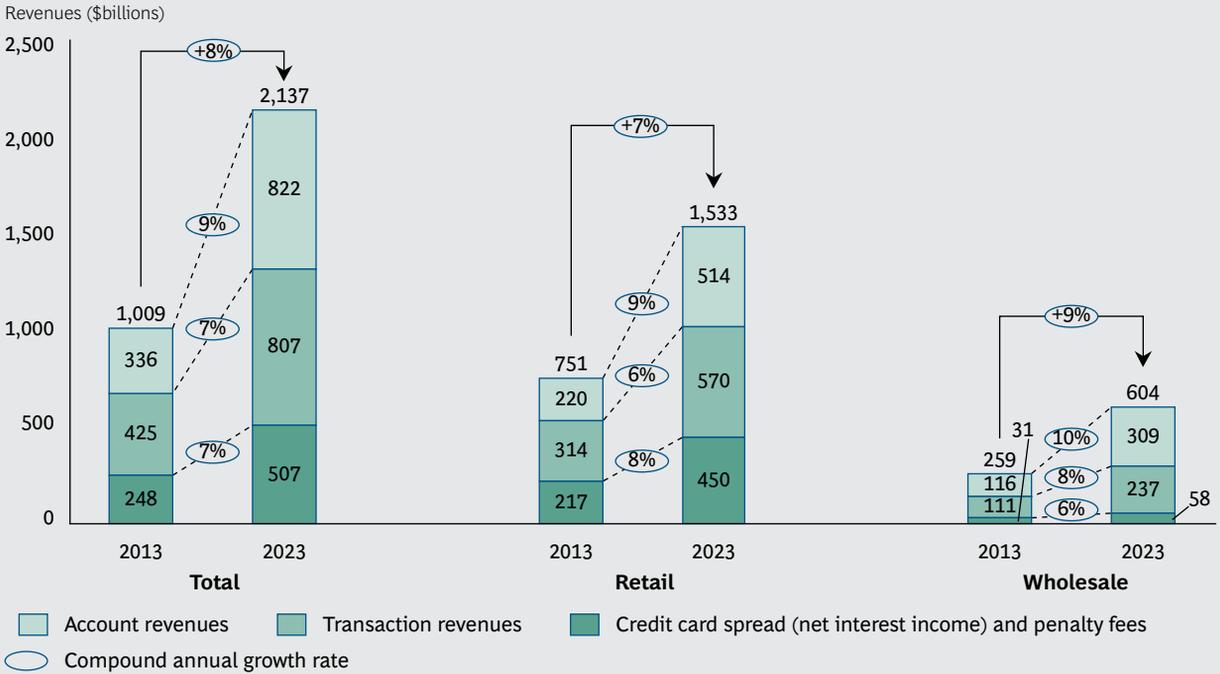
Looking ahead, overall growth will maintain its positive trajectory. The value of noncash transactions will reach an estimated \$780 trillion by 2023, a compound annual growth rate (CAGR) of 7 percent. Payments revenues will reach an estimated \$2.1 trillion, a CAGR of 8 percent. (See Exhibit 1.) Retail payments businesses will dominate, led by account revenues and followed closely by credit cards. Wholesale transaction banking will see significant increases in revenues from account spreads.

Revenue growth in retail payments will vary by region. (See Exhibit 2.) RDEs are projected to achieve double-digit annual growth and to account for an estimated 77 percent of total retail revenue growth from 2013 through 2023. These markets are benefiting from rapid GDP and income expansion, relatively young and dynamic populations, and active government involvement in building payments infrastructures and enabling financial inclusion. The migration of cash to cards and to e-payments will open numerous opportunities for payments players.

Looking ahead, overall growth in payments will maintain its positive trajectory.

By contrast, developed regions are projected to achieve a much lower annual growth rate of 4 percent. These regions continue to be challenged by narrow margins, the maturation of payments products, and modest economic growth. Compounding the systemic trends, various regulatory measures have been or will be implemented that significantly reduce revenues. For example, a regulatory tidal wave has already hit the United States, one that was fully reflected in 2013 revenues. In Europe, two waves are in

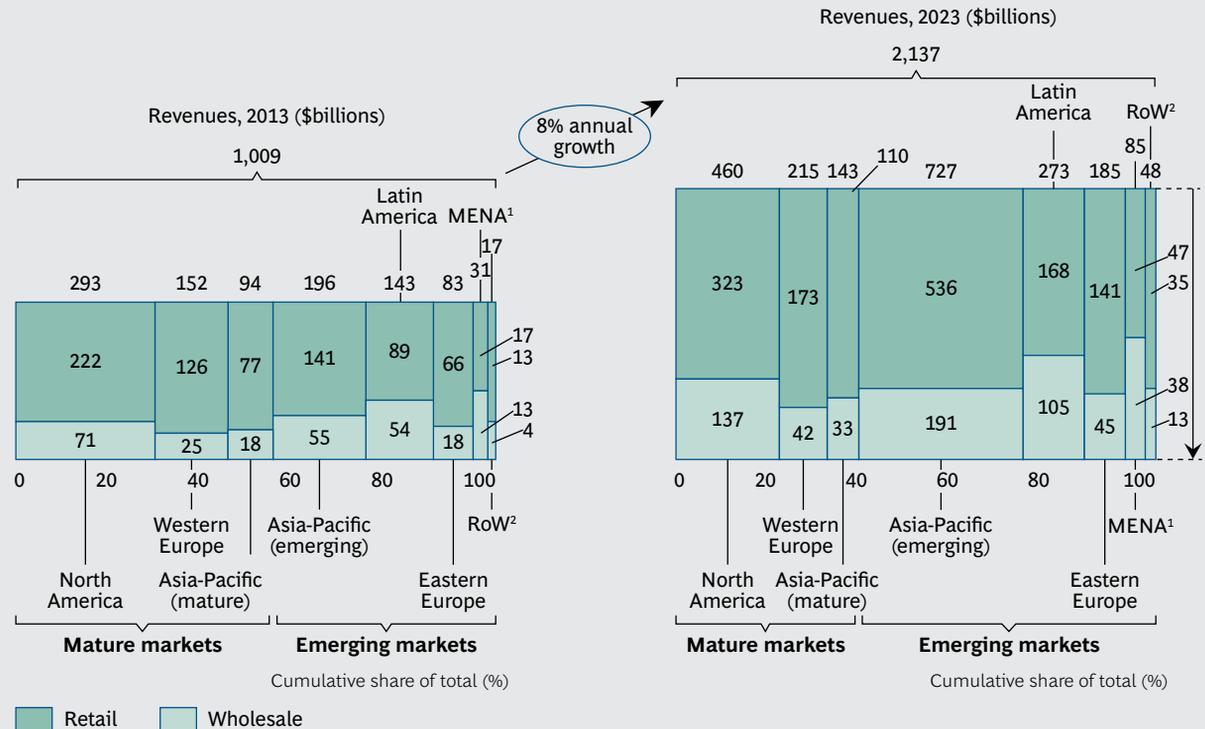
EXHIBIT 1 | Global Payments Revenues Will Reach an Estimated \$2.1 Trillion in 2023



Sources: BCG Global Payments Model, 2014; BCG analysis.

Note: Account revenues consist of net interest income and maintenance fees on current accounts (DDAs). Transaction revenues consist of transaction-specific fees on cards (such as interchange fees, merchant acquiring fees, and currency conversion fees), monthly or annual card membership fees, and fees for overdrafts and nonsufficient funds. Totals may reflect rounding.

EXHIBIT 2 | Revenue Growth in Retail Payments Will Vary By Region



Sources: BCG Global Payments Model, 2014; BCG analysis.

Note: Retail payments are initiated by consumers; wholesale payments are initiated by businesses and governments. Totals may reflect rounding.

¹Middle East and North Africa.

²Rest of world.

force: first, the Single Euro Payments Area (SEPA) has resulted in gradually declining prices for certain payments products; and second, limits on interchange are expected to take a significant toll, resulting in €8 billion in lost revenues annually beginning in 2015. Payments stakeholders in developed European markets must therefore weather the regulatory storm and forge new business models to fill the revenue gap.

Payments players must see payments as a platform, not simply as a product.

On the wholesale side, transaction-related revenues have tended to track economic and trade growth, whereas account revenues have faced a tug of war—pulled up by rising bank balances and pulled down by shrinking spreads. Account revenues are expected to recover, however, contributing roughly 56 percent of total wholesale revenue growth from 2013 through 2023.

Winning the Digital Game

Never in the history of the payments industry has there been a time of such disruption and opportunity across regions. Digital technologies will upset the competitive order and the role that payments play both in the operations of businesses and in the daily lives of consumers. Payments players, depending upon their strategic decisions over the next ten years, will have much to lose or gain. First, they must see payments as a platform, not simply as a product. Second, they must identify the initiatives that warrant investment. Third, they must pursue multiple paths in order to gain both broader experience and new customer insight.

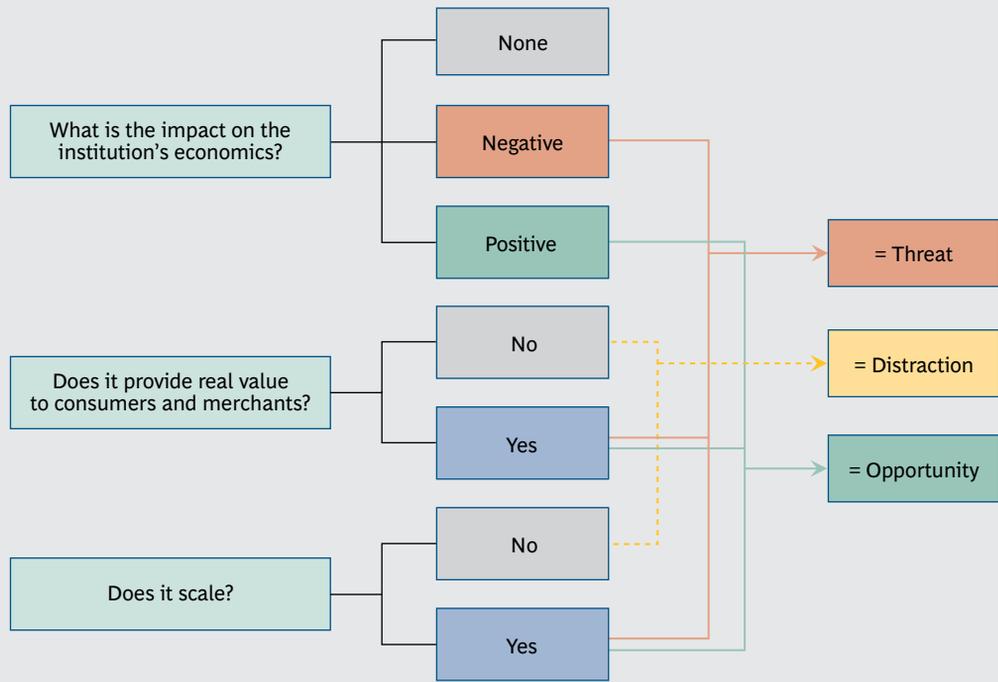
Seeing Payments as a Platform. The digitization of banking and overall retail commerce is driving innovation in payments services. Mobile banking is enabling financial institutions to interact with their customers as often as they like and to deliver new services in real time. These capabilities are providing an

unprecedented opportunity to improve customer satisfaction and deepen relationships. At the same time, technology companies are entering the payments space and generating new sources of value by integrating payments into broader platforms for merchants and consumers. These companies are engaging with their customers on a daily basis and pushing their payments capabilities. Incumbent players must figure out how to integrate their own payments services into platforms that contain additional benefits. Examples include Simple, PNC Bank's Virtual Wallet, and BankAmeriDeals. If incumbents fail to act, they risk being relegated to the back end of the process (as has been the case with PayPal).

Identifying Initiatives That Warrant Investment. Financial institutions must evaluate numerous potential initiatives, including those related to digitization, to find the ones that merit their attention and investment. This endeavor is best approached using a framework that poses three key questions. (See Exhibit 3.)

- *What is the impact on the institution's economics?* Players must determine whether a particular initiative will have a positive impact, improve the economics of certain customer segments, increase (or decrease) interactions, and create a new revenue stream. The effects on risk and fraud exposure, along with the cost of risk management, must also be considered.
- *Does it provide real value to consumers and merchants?* Of course, the key criterion here is whether the initiative truly eases a pain point or provides a better value proposition, taking into full consideration how customer needs and expectations are evolving outside of payments.
- *Does it scale?* It is also critical to examine whether an initiative offers economies of scale or a potential network effect. Part of the scale requirement is ensuring that the product or service either fits with current consumer behavior or has a sufficiently compelling value proposition to alter that behavior.

EXHIBIT 3 | Investment Choices Involve Three Key Questions



Source: BCG analysis.

Pursuing Multiple Paths. Once a bank identifies the right initiatives, it has to make tough choices regarding which ones to pursue and whether to build or buy—or to seek partnership arrangements. Because digital payments solutions are still in a relatively nascent stage, banks need to build their knowledge through smart experimentation. We encourage them to participate in multiple initiatives and pursue both solo efforts and partnerships. Indeed, a few banks are adopting a technology-company approach. One leading institution, for example, is upgrading its mobile-banking platform every 100 days.

Moreover, while much of the investment in digital solutions has been in the consumer-related business, there is also significant opportunity in the business-to-business (B2B) realm. There remains a vast number of man-

ual and paper-based processes that could be automated and digitized. As in the consumer realm, technology companies have already recognized this opportunity and are disrupting the competitive landscape.

Ultimately, with more than \$1 trillion in payments-related revenue growth as well as increasingly rapid development of digital technologies anticipated over the next ten years, banks have an enormous opportunity to increase revenues. But this prize will not be easily won. Banks must develop a long-term growth strategy that extends beyond payments, one that includes a new approach to product development and innovation. In the following sections, we will address these topics on a regional level for the retail segment, and on a global level for the wholesale segment.

RETAIL PAYMENTS IN EUROPE

DEALING WITH DISRUPTION

RETAIL PAYMENTS IN EUROPE are in a state of flux, with transformational forces disrupting economic models. European payments players need to have a full understanding of these forces in order to plan their future strategies. Above all, they need to take action, especially regarding pricing initiatives and operating models.

Four Transformational Forces

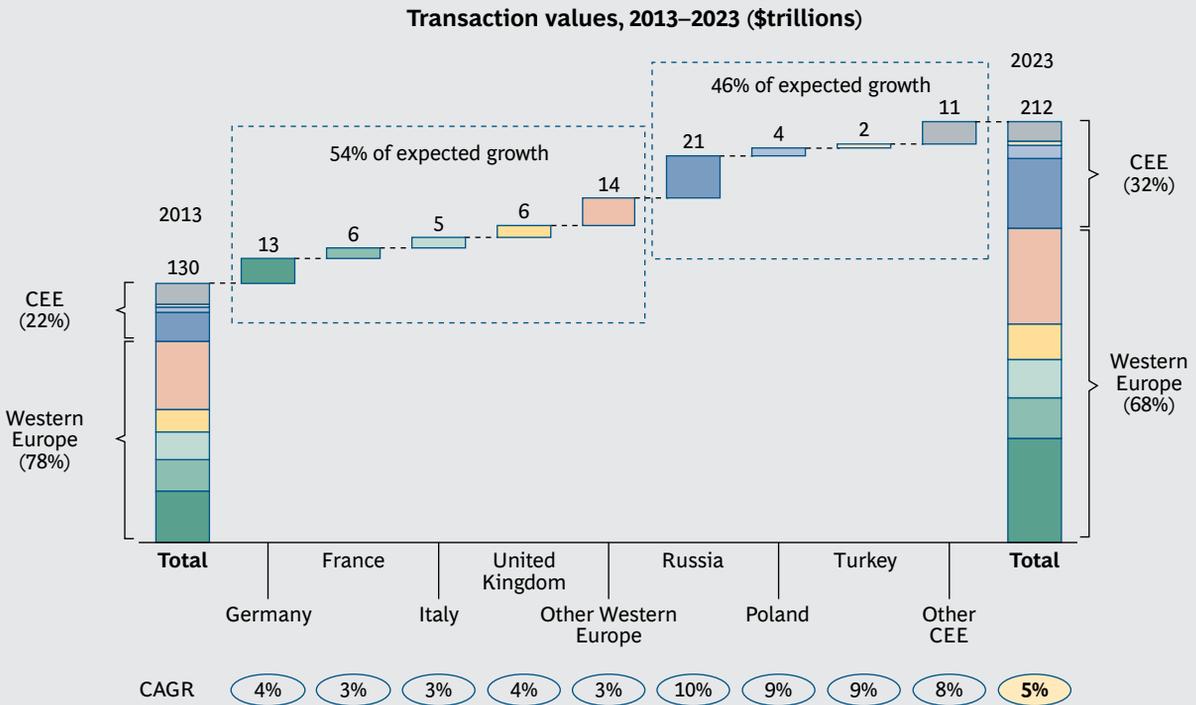
The four principal forces (apart from regulation) that are affecting the European payments landscape are heterogeneous growth patterns, digital innovation, evolving merchant payments needs, and widespread M&A activity.

Heterogeneous Growth Patterns. There is a clear difference between the Central and Eastern European (CEE) markets and the Western European markets. While the former accounted for just 22 percent of total European transaction volume in 2013, they represent nearly half of transaction value growth through 2023. (See Exhibit 4.) Transaction value in the CEE markets is expected to grow at roughly 9 percent per year through 2023, with Western European markets expanding at less than half that rate (about 4 percent per year). Global players that want to enter the CEE markets will face considerable barriers to entry, including significant innovation by local and sometimes nonbank players.

Varied growth patterns, moreover, will occur not only regionally but also by type of transaction. Across Europe, the growth rate of online transactions through 2023 is projected to outpace that of other forms of payments by 10 percentage points, with cards dominating online payment methods. Indeed, in 2013, cards had a 50 percent greater share of total payment values in online spending (compared with offline), with e-wallets representing about 25 percent of online transaction values. Here again, traditional payments players seeking entry will face competition stemming from local payment habits. For example, there is still a relatively high use of cash-on-delivery transactions in some CEE countries, and instruments for online commerce are highly local in some Western European markets.

Digital Innovation. Although it can be argued that European countries initially lagged behind the U.S. in digital payments innovation, there has been a flurry of activity recently. Not all apps have reached widespread adoption, and most innovations remain country-specific, but some initiatives in Europe have succeeded in truly addressing customer needs. For example, in-app payment wallets—such as the Starbucks loyalty app and mobile taxi-booking apps such as mytaxi and Uber, each with embedded payment functionality—have gained traction by offering a clear benefit to clients while not requiring coordination with the broader

EXHIBIT 4 | In Europe, the CEE Countries Will Account for Nearly Half of Transaction Value Growth



Sources: BCG Global Payments Database, 2014; BCG analysis.

Note: The Central and Eastern Europe (CEE) countries include Poland, Russia, and Turkey, among others.

payments ecosystem, as do general-purpose wallets. In the U.K., new apps have fully leveraged the real-time nature of the Faster Payments scheme with person-to-person (P2P) payments, such as Paym, and mobile or point-of-sale (POS) payments, such as Pingit and Zapp. Sweden, Poland, and Switzerland have also developed a real-time payments infrastructure, while other countries, such as Finland, are planning to build one. Some innovative payment solutions such as Mobile-Pay in Denmark have managed to gain traction locally.

Evolving Merchant-Payments Needs. The traditional acquiring landscape is shifting at multiple levels as the needs of merchants continue to evolve. First, physical merchants are increasingly seeking to provide customers with an omnichannel shopping experience in response to the growth of e- and m-commerce. To this end, they are trying to establish links with multichannel providers in order to offer one-stop shopping. Acquirers, for their part, are also building up multi-channel capabilities, through both greenfield

initiatives and acquisitions. Moreover, as innovation continues to accelerate, the complexity of merchant needs will increase. This trend will favor payment service providers (PSPs) and require traditional acquirers to develop or acquire PSP-like capabilities.

Further, microacquirers are competing with traditional acquirers on both pricing transparency and onboarding time. They are still largely limited, however, to underserved client segments. Meanwhile, Square’s U.S. roll-out of its mPOS solution has been copied in several European countries. The integration of payments with core merchant-business processes, including accounting systems and merchant-funded rewards, is rapidly gaining traction by leveraging transaction data analytics.

Widespread M&A Activity. With the EU landscape still relatively fragmented compared with that of the U.S., we have witnessed a fair number of mergers and acquisitions, mostly among acquirers and PSPs. In

addition, traditional bank-tied acquirers are increasingly outsourcing their acquiring activities.

Regulation: Weaker Revenues and Stronger Competition

Renewed legislation on payments, promoted by the European Commission, is now entering the final stages of a multiyear implementation process. Some of the specifics are still in flux, but the main pillars are in place. These include the following:

- Interchange rates will be significantly lower, with caps most likely at 30 basis points for credit transactions and either 20 basis points or €0.07—whichever is lower—for debit transactions.
- Third-party payment providers will have greater access to information about the availability of funds in consumers' bank accounts.
- Schemes and processing will be separated in some form that is still to be determined.
- Remaining restrictions on cross-border acquiring will be eased.

The cap on interchange rates will have a significant negative impact on issuer economics in Europe, with issuers standing to lose roughly €8 billion per year (beginning in 2015) out of a pool of €60 billion in card revenues. The loss will be roughly evenly split between credit cards (€4.3 billion) and debit cards (€3.7 billion). Issuers in markets where interchange accounts for a larger proportion of overall card revenues will obviously suffer more—and some credit-customer segments will become unprofitable. Regulation will also accelerate existing trends in European retail payments such as tighter competition in the acquiring market and the rise of alternative payments solutions.

Benefits for Acquirers, but Only Temporarily.

While issuers are incurring the bulk of revenue losses, we expect new legislation to have a temporary positive effect on the economics of acquirers—after which the

impact of increased competition is likely to outweigh the short-term windfall. As interchange decreases, merchant service charges will adapt only gradually, and acquirers thus will benefit. The rate at which this rebalancing occurs will depend on two factors: whether the merchant service charge is pegged to interchange, and whether the merchant is proactive in negotiating the charge downward. Acquirers whose customer portfolios are geared more toward small or unsophisticated merchants will benefit more. The temporary windfall will therefore vary greatly by acquirer and by country.

The cap on interchange rates will have a negative impact on issuer economics.

Overall, the new regulations will increase the level of pricing transparency to merchants, strengthening their negotiating power. As a result, we may increasingly see merchants trying to pit different acquirers against each other, leading to margin erosion for acquirers.

The Rise of Alternative Payments Solutions.

Overall, we expect legislation to accelerate innovation in alternative payments solutions in the following ways:

- The general economics of e-wallets will be improved in the short term by the reduction of interchange, which will then gradually be passed on to retailers.
- The reduction in interchange will shift rewards for card users from issuer-funded programs to merchant-funded programs, which will further accelerate the trend toward more deals and offers, as well as toward in-app payment wallets.
- Greater access to the balances in consumers' bank accounts by third-party providers will foster the development of alternative payment solutions by reducing risk.

Given the expansion in alternative payment solutions, banks will need to clearly define

their strategies concerning local and global wallets, especially with regard to how they plan to compete (or cooperate) with other local banks and alternative payment providers. Finally, it is important to note that some banks are still short of reaching their Basel III capital requirements. Asset-quality reviews by the European Central Bank (ECB) are still in progress. The ECB could require banks either to raise capital or to further deleverage. In parallel, payments assets have been highly valued. Banks could therefore use the underlying value of their payments infrastructures to strengthen their capital bases without having to deleverage excessively.

Sharper Pricing and Operating Models

The revenue challenges facing issuing banks will require them to sharpen their pricing models on both current accounts and payments transactions as part of a broader effort to reshape their strategic priorities. They will also need to review their operating models.

A successful pricing program can increase daily banking revenues by 25 percent over two years.

The Pricing Model. Although revenue streams from what is sometimes referred to as daily banking—current (or checking) accounts, transaction fees, and financing charges on revolving credit-card balances—vary by market, such areas represent roughly 25 percent of all retail-banking revenues. Indeed, the differences in retail-banking profitability among countries and client segments are due largely to pricing models, which are generally more favorable to banks in southern Europe than in northern Europe.

Moreover, although it remains clear that customers' current accounts and payments products are the keys to deepening the relationship and positioning the bank to meet other

financial needs as they arise, daily-banking economics are increasingly under duress, especially for mass-market clients. This pressure is coming not only from lower transaction revenues owing to regulation but also from higher transparency, lower margins on deposits, the need to invest in innovation, and the ease with which customers can switch institutions.

Banks will increasingly need to counter these forces through three key pricing levers:

- Formulate *segmented pricing offers* based on each customer segment's value and price sensitivity. Adjust the cost-to-serve for less-profitable clients.
- Devise *smart incentives* for non-daily-banking products to increase cross-selling. Offer appropriate rebates and discounts to high-value segments.
- Create *targeted pricing campaigns* to improve both the volume and quality of customer acquisition. Provide direct financial incentives but exercise caution in order to avoid excessive price reductions.

To capture these opportunities fully, it is critical for banks to develop a well-defined, comprehensive pricing initiative that includes a holistic view of all aspects of the business portfolio. Such programs should start by defining clear goals in terms of customer acquisition, cross-selling, up-selling, and new revenue generation for each client segment. On the basis of our client experience, we estimate that European banks could potentially increase their daily banking revenues by up to 25 percent over two years with a successful pricing program.

The Operating Model. Multiple types of deals among banks have occurred in the European card space in recent years, from collaboration on bank utilities to the forging of strategic partnerships. We expect the trend toward deals and partnerships to accelerate in the coming years. As European banks review their card-payments operating models, they must first consider the current landscape, which can be roughly divided into three types of markets:

- *Outsourcing markets*, in which payments are typically outsourced to a single processing utility, such as in Belgium (Atos Worldline), Switzerland (SIX), Spain (Redsys), and Ireland (TSYS)
- *Hybrid markets*, in which some banks have outsourced their payments processing to third-party providers, such as in the U.K., Germany, and Poland, while other banks have kept processing in-house
- *In sourcing markets*, in which payments processing remains largely insourced, such as in France and Turkey

In noncard payments, banks have made significant investments to comply with SEPA rules on credit transfers and direct debits. Further, in certain countries, banks have reviewed their IT and operations in order to fully leverage the real-time nature of new market infrastructures (such as Faster

Payments in the U.K. and Express Elixir in Poland).

Banks should use current market disruptions as an opportunity to upgrade their payments operating model, assessing their current position through multiple lenses: operational efficiency and scale, pure economics (including the overall value of payments to the bank), competitiveness against rivals, and innovation capability. Initiatives for true change should start with a clear statement on overall objectives, as this will drive both the type of potential deals to pursue and the most appropriate type of partners or buyers.

RETAIL PAYMENTS IN NORTH AMERICA

DEEPENING RELATIONSHIPS

AFTER SEVERAL YEARS OF being battered by regulatory measures, retail payments revenues in North America (the United States and Canada) rebounded to \$222 billion in 2013, up 4 percent from 2012, representing 30 percent of global retail-payments revenues. Transaction revenues accounted for \$104 billion, credit-card net interest income and penalty fees accounted for \$93 billion, and demand-deposit products represented \$25 billion. Retail payments revenues in North America are expected to reach \$323 billion in 2023, with account revenues showing the strongest growth (6 percent), followed by transaction revenues (5 percent). Retail payments businesses accounted for 76 percent of total payments revenues in North America in 2013.

In a region characterized by an active investment and acquisition landscape, with numerous new entrants—such as technology companies—disrupting the status quo, banks need to develop a holistic strategy. If they do not, they will likely fall short in seizing growth opportunities, increasing market share, preserving margins, fending off disintermediation threats, and capturing new revenue streams.

The principal opportunities lie in two areas:

- Leveraging new digital technologies to deepen customer relationships by way

of the checking or demand deposit account (DDA)

- Forging new and innovative strategies in credit cards

Taking the Demand Deposit Account Digital

Leveraging the DDA to build and deepen customer relationships has become more powerful with the development of digital technologies. Digital banking, which spans remote channels and includes remote deposit capture and mobile payments, provides an excellent platform to increase customer contact, deliver value-added services, and ultimately increase customer satisfaction. New capabilities such as preorders from retailers, highly targeted offers, and alerts sent to mobile devices will be every bit as game-changing as the advent of online banking and electronic bill payment (e-bill pay) more than a decade ago. Indeed, while the 24/7 functionality of online banking increased the role of banks in consumers' daily lives, and e-bill pay allowed banks to capture a greater share of wallet, today's digital technology enables banks to be more proactive in helping customers in multiple ways throughout the day.

Yet there are tall challenges to overcome. Although banks are well positioned—they possess key assets such as security and risk-man-

agement skills, as well as reliable, scalable infrastructure—technology companies and retailers are matching some of these assets and excelling at others (such as one-click purchases). Moreover, mobile-banking penetration is only about 30 percent for leading banks. Clearly, at this relatively early stage, institutions still have everything to win or lose. The initiatives that they launch today will go a long way toward determining their market positions and performance levels over the next ten years.

Payments players can broaden their credit-card business and gain market share by targeting “transvolvers.”

The road to building a powerful payments-driven customer relationship begins the moment the customer opens a DDA. (See Exhibit 5.) This is when the promotion of digital banking should start. Next, a bank must observe usage patterns and solicit customer input to continually enhance its applications. As the bank increases customer engagement and satisfaction, it should systematically seek out ways to improve the relationship.

Of course, deepening customer relationships goes far beyond simple cross-selling. It means

creating product bundles targeted at specific segments (such as students, newlyweds, or retirees), offering relevant products based on “trigger” events (such as the birth of a child or the first purchase of a home), and ultimately linking products, rewards, and offers together in an all-encompassing value proposition that adds up to more than the sum of its parts.

A bank must be visionary. It must not stop with customer input but figure out new sources of value that the customer may not think of. With technology companies driving innovation every day, digital banking and payment services will become table stakes—absolutely necessary but certainly not sufficient for differentiation. Payments providers need to distinguish themselves from the pack by offering digital services that go beyond payments and banking. Prime examples are delivering targeted deals, location-specific promotions, point-of-sale redemptions, and convenience-oriented services (such as being able to preorder and pay prior to pick-up at a quick-service restaurant or coffee shop).

Innovating in Credit Cards

There are significant opportunities for payments players to broaden their credit-card businesses and gain market share by targeting “transvolvers”—cardholders who execute a high number of transactions and revolve

EXHIBIT 5 | The DDA Is at the Heart of a Payments-Driven Digital Relationship



their credit balances every month—as well as by exploring cobranding arrangements that can bring substantial benefits.

In addition, there are growth opportunities for banks that successfully provide a bundled DDA and credit-card product. The bundle could include a single statement (preferably paperless), a spending analysis tool that includes payments made through both the credit card and the DDA, and the option to have minimum card payments automatically deducted from the DDA in order to avoid late-payment fees.

Finally, it is important to note that the U.S. and Canadian card markets differ in four key dimensions:

- The average number of credit cards per consumer is more than three in the U.S., compared with just two in Canada, where cardholders typically have one Visa card and one MasterCard.
- Cross-selling between DDAs and card accounts is higher in Canada, where there is a strong branch-distribution model.
- Canada has just one dominant cobrand, Aeroplan.
- Canadians' credit-card debt is half that in the U.S., resulting in lower transvolver revenues.

Excelling in the Transvolver Value Proposition. The transvolver segment, which typically represents 25 to 30 percent of a bank's card customers, can generate up to 90 percent of a credit card portfolio's profit and three times the risk-adjusted margin of other segments. Although this segment already consists of heavy card users, there is ample room for improvement in both customer satisfaction and retention. Hence, the opportunity to gain market share exists not only for national issuers but for regional issuers as well.

The value propositions that resonate with transvolvers vary during the customer life cycle. Winning in the customer acquisition stage requires offering the right interest rate (particularly the promotional rate), providing a sign-

on reward, and effectively leveraging multiple channels. Issuers that are excelling with transvolvers are successfully originating credit-card customers both in branches and online.

The next hurdle with transvolvers is to achieve "first in wallet" status, which typically depends on the robustness of the reward offering. Indeed, although these customers tend to apply for a card primarily on the basis of the interest rate, the decision on how often to use the card depends on the rewards. So-called headline rewards (such as 5 percent cash rebates on fuel purchases) have proved to be more powerful than complex, staggered rewards, and tend to influence card use across merchant categories.

Cobranding and partnership deals can be a profitable strategy.

Yet despite the importance of customer retention to portfolio profitability, many issuers underperform, creating significant opportunity for differentiation. Retention, moreover, generally requires simply treating the customer fairly. This translates into, for example, forgiving the first late payment or offering cardholders a free FICO credit score. Best-practice issuers have implemented so-called win-back programs to reduce attrition.

Pursuing Cobranding Deals. For issuers seeking to diversify their portfolios and boost growth, cobranding and partnership deals can be a profitable strategy. At least five significant deals among major players in North America will be up for renegotiation in the next two years. In addition, there are an increasing number of examples of dual- and triple-issuance portfolios. But competition is stiff, and issuers must be increasingly innovative in their partnership structures by focusing on select segments, investing in key capabilities, and excelling in execution. Overall, they must thoroughly understand their partners' economics and objectives and undertake rigorous due diligence during the request-for-proposal process.

At the same time, it is worth noting that partnership structures and capability requirements are changing, owing to several factors. First, economic terms are starting to hit the limits of the interchange ceiling. As a result, issuers and partners are beginning to explore more innovative accords (such as the issuer being compensated on a profit-sharing model). Second, partners are expecting more from issuers in terms of driving market-share shifts and generating value. Some issuers are integrating other service offerings into the partnership and leveraging their own data to identify revenue generation ideas and opportunities. Lastly, some issuers are pitching advanced operating capabilities such as new forms of customer servicing and innovative methods of fulfillment.

In our experience, issuers that excel in co-branding arrangements outperform in six dimensions: organization, people and culture, process management, technology, regulatory compliance, and the ability to focus on a specific industry vertical. Leaders in co-branding firmly believe that a vertical focus builds a track record, expertise, and, ultimately, scale. They recognize that the partnership skill set is different from that of their own branded

business, requiring a particularly strong retailing and operational mindset. Moreover, they understand that the partnership business deserves as important a seat at the table as their own branded business, and they dedicate sufficient functional resources, especially IT. The person responsible for partnerships is empowered to negotiate with partners in real time and to marshal the necessary enterprise resources to get things done.

Partnership deals also need to include frequent peer-to-peer interactions, cross-functional teams, and quarterly (or more frequent) sessions among senior leaders at both entities to review strategy and performance, ensure alignment on objectives, assess regulatory compliance, and agree on the best path forward.

Ultimately, with \$100 billion in retail-payments revenue growth to capture over the next ten years in North America, banks need to act strategically and decisively. Yet competition will be increasingly intense. Differentiation is paramount, with regard not only to other banks but also to technology companies.

RETAIL PAYMENTS IN RDEs

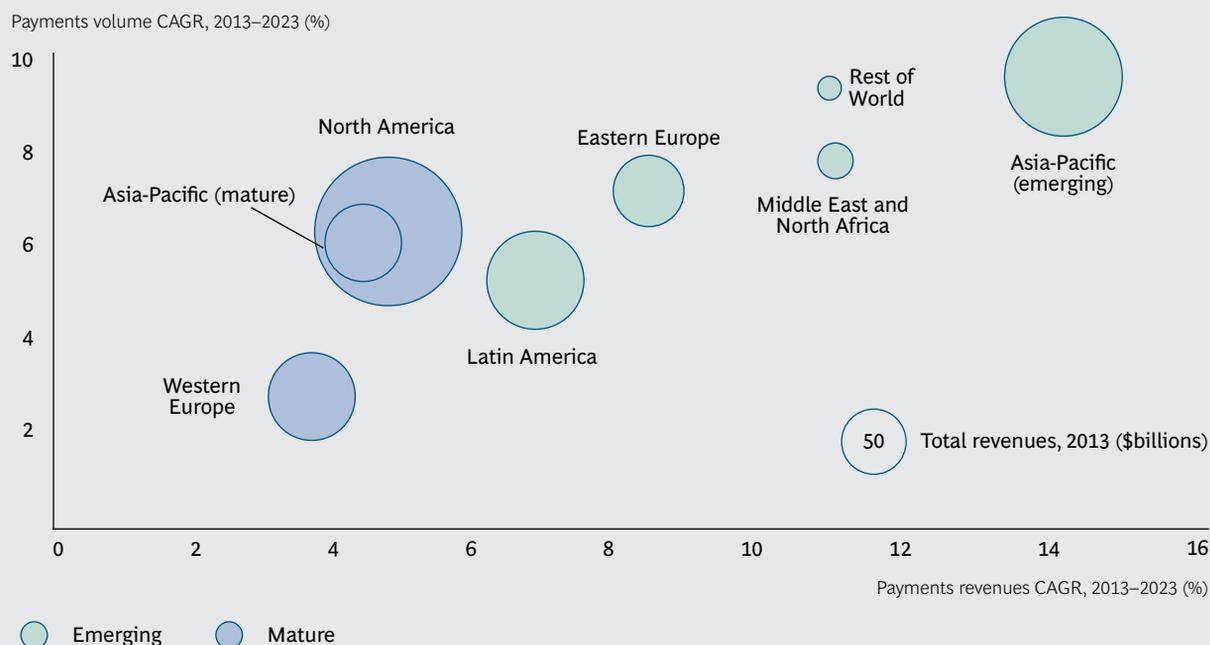
THRIVING IN A HIGH-SPEED WORLD

THE PAYMENTS INDUSTRY IN RDEs continues to be characterized by strong growth. The primary drivers are relatively young populations, generally favorable macroeconomic conditions, and low banking penetration—in stark contrast to the developed payments markets with their low macroeconomic growth and near-universal banking penetration. Indeed, a two-speed

payments world is emerging, as evidenced by divergent growth in volume and revenues. (See Exhibit 6.)

Yet despite the high-growth environment and the fact that the payments business is still very profitable in most RDEs—featuring substantial margins for acquirers, issuers, and card schemes—the outlook is not all blue

EXHIBIT 6 | Growth in Retail Payments Will Differ Widely by Region



Sources: BCG Global Payments Model, 2014; BCG analysis.

skies. Prospects for incumbent players are clouded by falling interest rates, declining merchant discount rates and interchange (in response to regulatory pressure), and the emergence of new competitors. Banks must also find ways to motivate customers to use

their noncash payments products and digital banking services. (See the sidebar “Taking Action on Customer Engagement.”)

Ultimately, there are ample growth opportunities for payments players of all varieties in

TAKING ACTION ON CUSTOMER ENGAGEMENT

Despite the overall positive outlook in RDEs, banks are facing profitability pressures. Tighter regulation, rising customer expectations, and intensifying competition levels are narrowing margins significantly. At the same time, large portions of private assets are still held in cash, with a high volume of transactions executed outside formal banking systems.

One way that banks and other payment institutions can fight back is by redoubling their efforts to increase customer engagement, achieved by motivating customers to direct-deposit their paychecks and to routinely use the bank’s noncash payments products, especially cards. In so doing, a bank can become firmly established as the customer’s primary bank. Statistics from many RDEs show that engaged customers generate two to three times the revenue of “nonengaged” ones, and are also more loyal.

In our experience, a thorough approach to increasing customer engagement involves four elements: segmentation, value proposition, channels, and stimulation.

Segmentation. Banks must first make an effort to fully understand customers’ concerns about noncash transactions. They must then segment and prioritize the customer base in order to approach those with the highest engagement potential. A leading bank in Turkey, for example, realized that many customers did not apply for loans for fear of an in-person rejection. The bank introduced a way to request a loan through a text message, and responded only if the loan was approved (with rejections not actively communicated). The bank received 300,000 loan requests in the days following the launch.

Value Proposition. Banks need to establish more robust value propositions. Features should include increased conveniences—such as 24/7 transaction capability and remote functionality—as well as lower fees, loyalty programs, and cash-back offers.

Channels. Banks must also ensure that the required channel infrastructure (such as ATMs, transaction and acceptance terminals, Internet access, and mobile networks) is widely available and sufficiently functional to execute the most common transactions. For example, a South American bank developed a network focused on low-income regions in order to enable financial inclusion of these customer segments. Terminals for essential services such as withdrawals, deposits, and transfers were installed at partner institutions such as grocery stores and other merchants. The growth of the network was so rapid that within a few years the number of terminals surpassed the total number of ATMs in the bank’s home country. The bank ultimately acquired 30 percent of the country’s population as customers.

Stimulation. Banks need to foster customer awareness of the advantages of their services and create a sense of trust and comfort in using them. A Malaysian bank introduced an all-in-one product bundle aimed at mass-market clients. The bundle is easy to sell and consists of basic transaction functionality (an account, a card, and remote banking), along with easy-to-activate optional product components (including several types of preapproved loans and goal-based savings and insurance products). Since all products are available immediately after the account is opened, the bank has doubled customer engagement and has been able to serve its mass-market customers more profitably.

RDEs. In order to thrive, however, these players must successfully navigate a landscape characterized by significant change. Two major themes are shaping the future of retail payments in RDEs: the battle against cash, and growing digitization.

The Battle Against Cash

Unlike developed markets, cash payments still dominate in RDEs. And although there is a clear correlation between a country's level of economic development and its level of card penetration, some RDEs stand out for their high penetration rates. In general, penetration rates can be explained mainly by the roles of governments, issuers, and acquirers, but also by the roles of nonbank payments providers and local card schemes.

Governments. By promoting the development of a sturdy payments infrastructure and generating proper incentives, some governments have been supporting the advancement of electronic payment methods. Examples include the following:

- Turkey has introduced regulatory changes to promote credit-card payments, including establishing a credit bureau, restructuring credit-card debt to make terms easier for cardholders, and enabling remote sales of credit cards outside bank branches through alternative channels. Oversight legislation introduced in 2005 has provided a solid regulatory base, and the switch to cards equipped with micro-chips has fostered trust in the system.
- The United Arab Emirates has implemented a program aimed at achieving a cashless economy. Its features include the mandatory use of payroll cards for wages, the establishment of an electronic payment gateway for government payments, a national automated clearinghouse, and higher levels of card acceptance by taxis and fuel merchants.
- Mexico has passed legislation that promotes the development of correspondent banks, eases requirements for opening new bank accounts, and increases tax benefits both for banks that support

point-of-sale installations and for consumers that make electronic payments.

- India, in a document published by its central bank, has stated its vision of proactively encouraging electronic-payment systems. In its regulatory policies, India intends to drive financial inclusion among the unbanked, cut debit-card merchant discount rates, and narrow the window of check validity from six months to three months. ACH (Automated Clearing House) and GIRO (General Interbank Recurring Order) initiatives have already been put in place, as well as 24/7 IMPS (Immediate Payment Service) capability, which has been extended to multiple channels. India is also urging nonbank players to participate in the payments network.

Cards have the potential to play a larger role in the growth of e-payments.

Issuers and Acquirers. Issuers and acquirers naturally play a key role in promoting the penetration of noncash payments. Some incumbent players are taking forceful action in the battle against cash by leveraging new technologies to increase card acceptance, introducing low-cost debit cards or alternative local schemes, developing correspondent-banking models, or simply educating their customers. In Russia, for example, a leading bank has made a significant investment in hiring branch-based greeters whose principal function is to educate customers on how to make noncash payments.

As for prepaid cards, their usage is still small. But these cards have the potential to play a larger role in the growth of electronic payments in the future. Prepaid cards are appealing both for unbanked consumers and for banked consumers who prefer not to have to worry about paying a credit card bill or possibly incurring card debt. Moreover, cobranded prepaid cards enjoy virtually universal acceptance, are safer and more convenient than

cash, and are easily obtainable. Prepaid cards currently account for less than 1 percent of total payments in RDEs, but they are expected to grow by 16 percent per year through 2023. They are increasingly being used to make benefits payments to unbanked individuals, such as in Turkey where citizens now receive their welfare funds on a prepaid MasterCard.

Of course, increasing card penetration requires attractive economics for issuers, acquirers, and merchants. We have witnessed penetration growth in some countries (such as Argentina and Brazil) in which the economics provide incentives both for acquirers to underwrite merchants and for issuers to promote card usage through rewards and other benefits.

Sharing platforms and resources can help in capturing the digital opportunity.

Nonbank Payments Providers. Nonbank institutions such as retailers and telecommunications concerns are playing a leading role in promoting financial inclusion. A well-known example is M-Pesa, a mobile-phone-based service launched in Kenya in 2007 that enables money remittances to be sent with a couple of taps on a handset. People can also make digital payments in shops that have M-Pesa representatives—a growing force that rose by 40 percent in 2013 to more than 65,000 agents. More than two-thirds of Kenya’s adult population currently subscribe, and a quarter of the country’s payments flow through this mobile-money service.

The Evolution of Local Card Schemes. National card schemes have continued to grow and evolve. Their lighter cost structures have also helped promote card penetration among lower-income consumers. For example, China UnionPay, the first large-scale national scheme, is dominant in China and accounts for 11 percent of domestic payments. Other countries have followed suit, including India with RuPay and Brazil with

Elo. Elo, launched by a consortium of financial institutions, is aimed largely at increasing card penetration in underbanked segments of the population and thereby driving card usage. With roughly 50 million cards in circulation, Elo is growing rapidly and targeting a 15 percent market share by 2016.

The key challenges to success for local schemes are securing broad acceptance both locally and internationally, particularly among merchants and in ATMs, and generating incentives among banks to issue their cards.

Growing Digitization

RDEs are characterized by rapidly increasing mobile and 3G phone penetration, as well as by ever-expanding Internet access. These trends are fueling strong online growth. Indeed, China has already replaced the United States as the world’s largest e-commerce market, with increasing digitization supporting the expansion of new platforms and technologies.

These dynamics and the higher volume of transactions that they promise are creating attractive new opportunities for the payments industry. But there are also challenges for incumbent institutions, particularly in terms of intensified competition from emerging players that are pursuing a share of new revenue pools. In China, Alipay, which processes payments on the huge Alibaba e-commerce platform, provides value-added offers to online merchants, a service it can use as a strategic perch to expand beyond e-commerce into other areas of financial services.

Some incumbent banks and acquirers in RDEs are still in a relatively early stage of building their digital capabilities, although others are already among the most innovative. Those that have advanced have been able to afford investing in digital capabilities or have developed partnership models. Finally, bank utilities that enable a group of institutions to share platforms and resources can play a role in capturing the digital opportunity by lowering entry costs for all participants and generating network effects.

WHOLESALE TRANSACTION BANKING

ATTAINING EXECUTION EXCELLENCE

WHOLESALE TRANSACTION BANKING HAS been steadily rising in importance since the 2008–2009 financial crisis. Its attractive economics—annuity-stream fee revenues, low risk, low capital requirements, and high returns on equity—have drawn the attention of banks worldwide. Leading banks are now setting aggressive growth goals for this business, with ambitions to double revenues over the next three years. Realizing these goals will require a robust growth strategy, including navigating the new regulatory environment and deepening customer relationships by developing a solutions-based advisory approach.

Wholesale transaction banking is expected to outperform retail payments over the next ten years across all markets at 9 percent revenue growth (compared with 7 percent in retail), including small-business credit and debit cards. (See Exhibit 7.) Of the projected \$345 billion in revenue growth, emerging markets will account for about 72 percent (a CAGR of 11 percent compared with 6 percent for mature markets). In mature markets, growth will be driven primarily by current-account revenues (thanks to increasing spreads), while transaction revenues are growing in tandem with GDP gains. Fees per transaction are expected to remain stable. In emerging markets, growth will be driven by overall increases in the number of businesses and by the rise of multinational corporations.

Yet despite strong expected revenue growth, excelling in wholesale transaction banking will not be easy over the next ten years. Regulatory burdens continue to hinder banks on both the revenue and cost sides. Corporate treasurers are demanding support—in areas such as e-invoicing, compliance, and the integration of financial and physical supply chains—that go beyond traditional payments and cash-management services. New entrants (such as Tungsten, GT Nexus, and TradeShift) are responding to these demands and threatening to disintermediate banks. Exceptional revenue growth is up for grabs in RDEs.

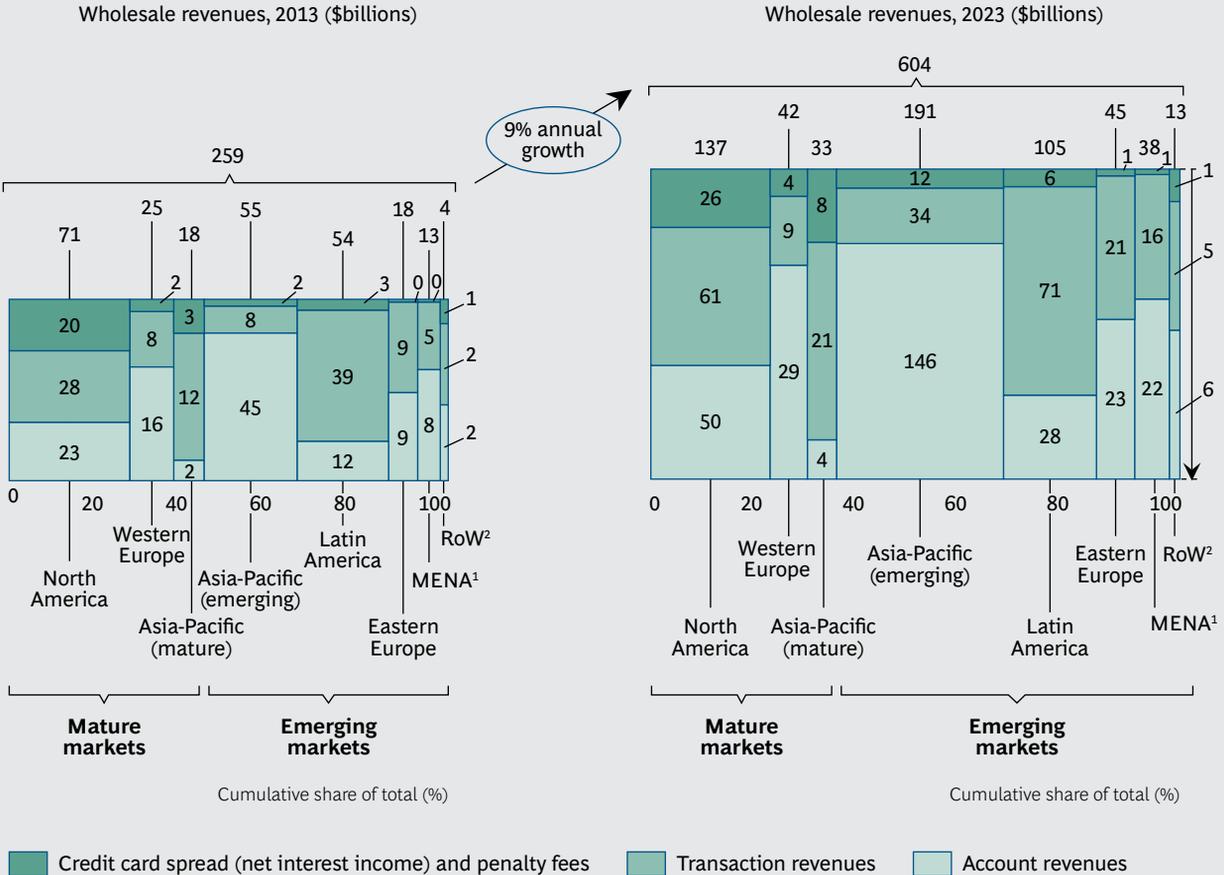
In order to move forward effectively, wholesale transaction banks need to focus on several areas: achieving sustainable regulatory compliance, seizing the working-capital opportunity, and capturing growth in RDEs.

Achieving Sustainable Regulatory Compliance

Many global transaction banks have doubled the size of their compliance functions since 2011, primarily to address anti-money-laundering and sanctions regulations. These investments have helped solve a number of critical compliance issues and improved organizational awareness of compliance.

But the expansion in regulatory requirements has also led to greater complexity, longer

EXHIBIT 7 | Revenue Growth in Wholesale Transaction Banking Will Be Strong



Sources: BCG Global Payments Model, 2014; BCG analysis.

Note: Account revenues consist of net interest income and maintenance fees on current accounts (DDAs). Transaction revenues consist of transaction-specific fees on cards (such as interchange fees, merchant acquiring fees, and currency conversion fees), monthly or annual card membership fees, and fees for overdrafts and nonsufficient funds. Totals may reflect rounding.

¹Middle East and North Africa.

²Rest of world.

processes, and lower profitability. Conversations with executives of the largest transaction banks have confirmed our view that the desired end state of a sustainable, fully compliant organization has yet to be reached. Indeed, a key finding from the initiatives adopted thus far is that a larger compliance function is not necessarily sufficient, nor does it systematically ensure higher levels of compliance. A second wave of improvements is needed, one that actually embeds compliance into day-to-day business activities—and embraces not just the letter but also the spirit of the regulations.

Achieving such goals involves designing solutions that run end-to-end across the transaction-banking organization—solutions that are not just reactive and focused on the back

office, but that go beyond the confines of the compliance function and address behavior where it occurs: the front office. Banks need to adopt the following principles:

- Engage the leaders of revenue-generating business units in designing compliance processes and setting objectives. The ultimate goal is for the business unit to own risk identification, mitigation, and control, while involving the broader compliance function in the process.
- Focus on the front line more than on management. In our experience, the people who really understand the problems are front-line people such as branch managers and call center supervisors.

- Create a risk-conscious culture in which every employee is informed, equipped, and motivated to make the optimal risk-return assessment. This requires fundamentally changing employees' decision rights and performance metrics. Compensation and recognition systems need to create the right behavior, because top-down value mandates will not be enough.
- Establish conduct and compliance standards end-to-end—from product development to sales and distribution and including ongoing customer management. Product design must consider the impact on the front office of added complexity, and make tradeoffs accordingly.
- Ensure that conduct and compliance standards are effective and practical, not just “check-the-box” exercises. Standards must also be operational rather than conceptual, addressing real risks that are clearly identified. In an example of a bank falling short of these goals, the compliance department designed a customer risk-assessment program that evaluated nearly 200 data points—many more than the front office could gather or than the bank's systems could capture.
- Measure progress in improving compliance on the basis of outcomes (for example, knowing that your customer standards are all being met)—rather than on the basis of tasks (such as counting the number of employees who have completed compliance training). Staff behavior and beliefs must be accurately gauged.

Banks that follow these principles will have a more accountable and compliant organization that is more proactive and less reliant on after-the-fact controls. Such banks will also be more client-centric by taking a front-to-back approach—bringing regulatory considerations into business decisions about whom to serve and how to serve them. Moreover, these principles will drive better efficiency by removing unnecessary duplication and complexity and enabling cross-organizational coordination.

Seizing the Working-Capital Opportunity

Although banks are being challenged by regulatory requirements, compliance, and price pressure, they are also being presented with a major opportunity to transform their businesses, thanks primarily to evolving digital technologies. Along the financial supply chain, there are numerous pain points (such as dispute resolution, account reconciliation, and trade credit) and vast numbers of manual and paper-based processes that could be automated—thus releasing large amounts of working capital. There is a chance for banks not only to differentiate themselves and win market share but also to generate new revenue streams. Working-capital optimization has thus become a key element of efforts to win cash management business.

Working-capital optimization is key to winning cash management business.

Indeed, numerous trends have been changing companies' payments and cash management needs over the past five years. For example, the financial crisis heightened concerns about counterparty risk. At the same time, the treasurer's role has become more strategic, with increasing responsibility for working-capital optimization by collaborating more closely with procurement, sales, and accounts receivable. Financing needs have also shifted as buyers' clout and demand for open-account trade have risen and as suppliers face challenges in accessing credit.

In addition, working-capital constraints caused by the financial crisis—coupled with the dominance of open-account trade—have led many corporations to integrate their cash and trade-finance operations more closely, seeking a comprehensive view of cash and trade activities and expanding their working-capital options to include trade-related services. This trend has led to new opportunities for banks to link trade finance and payment services.

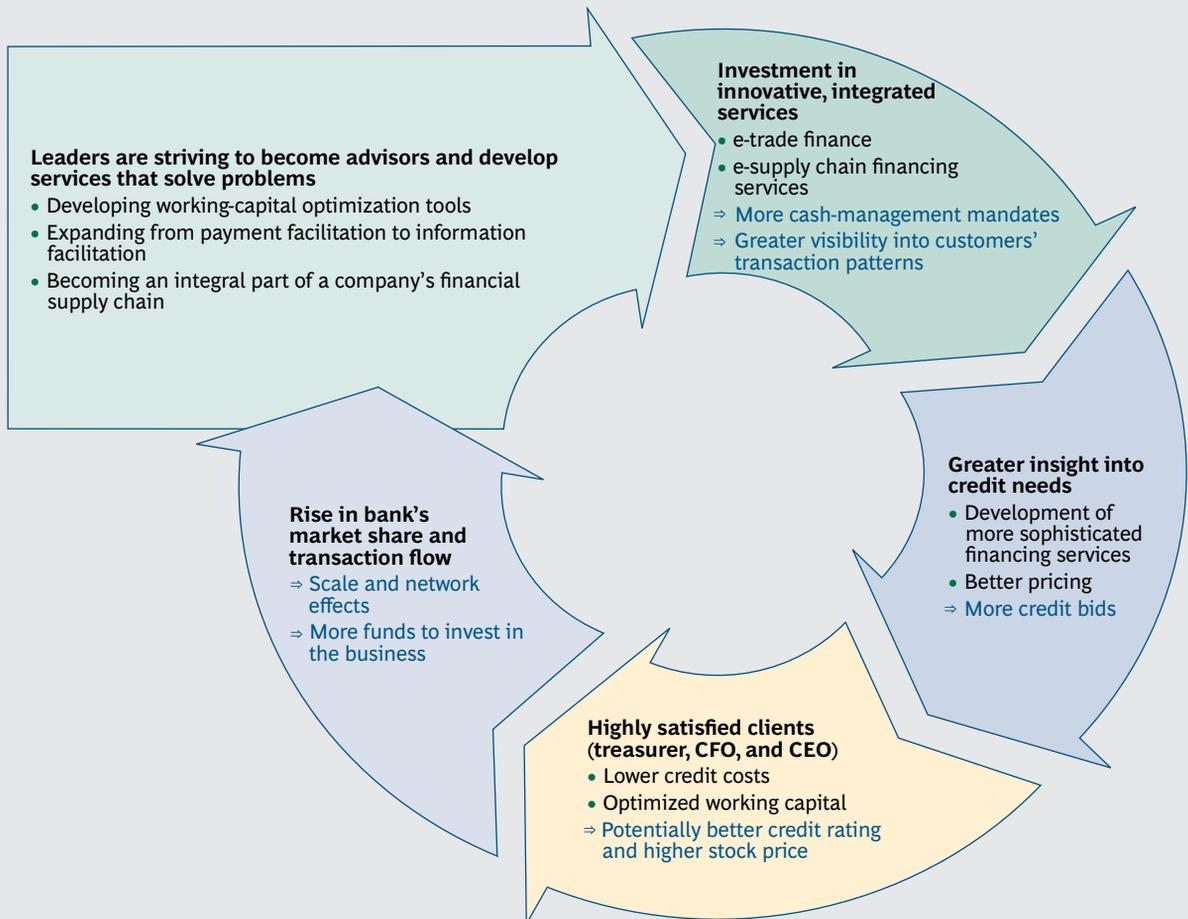
Leading transaction banks have recognized that working-capital solutions and advisory services are differentiators that enable them to diversify away from commoditized services and deepen their client relationships. Several institutions have gone beyond integrating relevant payables and receivables services to include working-capital finance (for example, developing tablet-based interactive tools to demonstrate the power of their solutions).

Moreover, banks are in the position of being able to deliver a virtuous circle that nonbank players cannot. (See Exhibit 8.) By investing in services that automate the entire financial supply chain, banks can win a greater share of wallet as well as gain greater visibility into their clients' cash flows. This visibility, in turn, enables the bank to determine credit needs, offer optimal credit products, and possibly improve pricing. If the bank can improve the cli-

ent's working capital, the result could be better analyst ratings and a higher stock price for the client, deepening the bank's relationship not only with the treasurer but also with the CFO and possibly the CEO.

Of course, the opportunity to build their business by improving financial supply-chain efficiency and optimizing working capital has not gone unnoticed by nonbank players. The procurement-to-payment arena (buyer-centric accounts-payable platforms) is already dominated by third-party players. Nonbank institutions have also had success in forming multi-bank trade-finance platforms. Therefore, to stay competitive, banks must develop services that integrate working-capital optimization into a holistic offering for their customers. Banks also need to effectively harness digital technologies and successfully work across product silos to address increasingly complex client demands.

EXHIBIT 8 | Banks Can Deliver a Virtuous Circle from Working Capital to Stock Price



Source: BCG analysis.

Capturing Growth in RDEs

Rapidly developing economies continue to grow significantly faster than mature markets in wholesale transaction banking. By 2023, RDEs will account for 65 percent (\$392 billion) of global wholesale transaction-banking revenues, up from 56 percent (\$144 billion) in 2013. Emerging Asia-Pacific will be the fastest-growing region and will supply more than half the revenue growth from RDEs. Both trade-finance revenues and wholesale cross-border payments will continue to expand at about 10 percent annually.

As their corporate clients grow and globalize, banks in RDEs are investing to capture this opportunity, and with favorable economics on their side: the returns on risk-weighted assets for transaction-banking relationships are 100 to 200 basis points higher in RDEs than in the typical wholesale relationship in developed markets.

Yet success will not come easily. In order to capture this opportunity, banks that are active in RDEs need to take the five steps outlined below. By excelling at these initiatives, global players can increase their market share, while best-practice local players can demonstrate their ability to challenge global incumbents.

Organize for success. Most banks in RDEs will need to adopt a more integrated model, with transaction banking as a P&L-accountable business that drives both payments and cash management (usually combined) and trade and receivables finance (also usually combined). While product sales-and-implementation teams typically remain localized, centralized teams are indeed necessary for product, channel, and platform management across borders. In Asia in particular, 55 percent of companies with more than \$100 million in annual sales maintain regional treasury centers. Understanding the regional treasurer's agenda and having a cross-market perspective is critical to success.

Focus on sales and service excellence. For many banks in RDEs, sales effectiveness is the main commercial barrier that they face in transaction banking. The levers for improvement are local sales expertise, effective

teaming between relationship managers and individual transaction-banking specialists, and shared financial and operational performance metrics. Local players have also started to establish industry-specific transaction-banking sales teams where critical masses of clients exist. For consistent cross-border service, banks need to create teaming and revenue-recognition mechanisms comparable to those of global banks. The most effective players rigorously track transaction-banking penetration and share of wallet across the client portfolio.

Price to capture value. Establishing a disciplined, consistent pricing framework for transaction-banking services can create significant value. (See the sidebar "Pricing: An Underleveraged Silver Bullet for Boosting Top-Line Growth.") Indeed, undercharging and poor tracking of fees typically account for revenue leakage of 3 to 5 percent. An Asian bank, realizing that pricing complexity had become a barrier to sales, dramatically simplified its transaction-banking fee schedules. Others have focused on making product teams more effective by providing guidelines for tactical pricing, thus increasing their flexibility and helping them win pitches on high-value accounts.

Enhance the target operating model for the technology and delivery platforms. RDE players are rapidly developing digital platforms. A majority of corporations envisage an integrated platform that offers both cash and trade finance as a banking requirement. BCG's corporate-banking benchmarking suggests that portal usage (preferably with a single log-in) is more important than product range as a driver of both total revenues and fee income in wholesale transaction banking. Best-practice local banks already offer a full range of digital services that include cross-border payments, invoice and receivables reconciliation, cash flow forecasting, letter of credit initiation and tracking, and linked FX dealing.

Rethink partnership strategies. Tighter regulations are placing pressure on correspondent-banking networks. Where perceived compliance risks and costs outweigh the benefits, global players are severing

relationships with RDE institutions, particularly in Latin America and the Middle East and North Africa region. Many RDE banks are therefore turning to RDE peers with regional networks to access out-of-footprint opportunities—or are building their own presence. As open-architecture and

open-account trends continue, they are also increasingly looking to third-party platforms, often from nonbank providers, for client access.

PRICING

An Underleveraged Silver Bullet for Boosting Top-Line Growth

Although much of the attention in wholesale transaction banking has been on staying ahead of regulatory trends, reducing costs, improving cross-selling, and developing solutions-driven businesses, considerable revenue potential remains untapped in the pricing arena—regardless of region. Two powerful levers are repricing on existing products and price realization on new sales. When well planned and well executed, initiatives in these areas can have a direct profit impact. They can also be implemented in six to nine months with low IT investment and at virtually no marginal cost.

Repricing is focused on existing business and line-item pricing. It involves unilaterally changing the prices and terms of stable, long-running products. Repricing initiatives generate full impact in the first year after implementation.

Price realization on new sales focuses on designing and enforcing a more systematic approach to discounting, thus limiting unwarranted leakage and waivers. Rigorous implementation requires clear guidelines and strict governance. Products are priced by transaction according to the specific bundle of services that the client buys (such as trade finance). Price realization will reach full impact according to the rollover cycle of the specific portfolio.

There are three key success factors in repricing and price realization:

- Focus on the long tail of clients typically constituting 95 percent of clients and 50 percent of revenues, with mostly

outdated prices and relatively low price sensitivity.

- Set target prices on the basis of internal as opposed to external benchmarking, which is the best guideline for pricing power given a bank's specific market and value proposition.
- Exercise disciplined top-down implementation, as this is the only way to minimize discounts and overcome the fear of client attrition.

In order to achieve sustainable results and prevent pricing inconsistencies from creeping back, banks must ensure that related governance, processes, and systems support the goals of these initiatives.

When both types of pricing initiatives are pursued, we have observed increases of up to 7 percent on total transaction-banking revenues (fees and interest) with virtually no attrition, and increases of up to 30 percent on fee revenues for particular segments. Because price increases translate directly into profit increases, margins can rise by up to 25 percent and the return on investment can be up to 200 percent two years after implementation. Furthermore, the bank benefits from a granular understanding of its pricing power and specific product usage.

Such impressive results are possible because of the structural mispricing that is common in wholesale transaction banking today. Prices are often outdated, eroded by unnecessary discounting, and do not reflect changing buying behavior on the part of clients.

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.

The Payments Opportunity in RDEs: Getting Customer Engagement Right

A Working Paper by The Boston Consulting Group, September 2014

From Glitter to Gold in Emerging Payments

A Working Paper by The Boston Consulting Group, July 2014

Steering the Course to Growth: Global Asset Management 2014

A report by The Boston Consulting Group, July 2014

Riding a Wave of Growth: Global Wealth 2014

A report by The Boston Consulting Group, June 2014

Operational Excellence in Retail Banking 2014: No Compromise; Advocating for Customers, Insisting on Efficiency

A Focus by The Boston Consulting Group, May 2014

The Quest for Revenue Growth: Global Capital Markets 2014

A report by The Boston Consulting Group, May 2014

How to Boost Bank Branches in a Multichannel World

A Focus by The Boston Consulting Group, March 2014

Data, Analytics, Advice: Winning Share of Wallet in Wholesale Banking

An article by The Boston Consulting Group, February 2014

Breaching the Next Banking Barrier: Global Risk 2013–2014

A report by The Boston Consulting Group, November 2013

Getting Business Models and Execution Right: Global Payments 2013

A report by The Boston Consulting Group, September 2013

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