



# PAYMENTS PLUS





# BUILDING STRONG FOUNDATIONS

We are thrilled to deliver the fourth edition of our quarterly publication examining the numerous ways we help clients navigate the payments landscape. This year has been full of change, and we've been standing with our clients to protect, grow, and enhance their payments business at every turn.

We can't ignore the ground-shaking mergers roiling our industry. With three of the largest deals ever in payments having taken place in just the past six months, we expect nothing less than a transformed industry.

The flurry of deal activity raises numerous questions. How, for example, will the expected billions of dollars in savings be achieved, and which services and features might be impacted? Will connections between merchant systems and issuer cardholder systems change the status quo for retail commerce? Can AI and machine learning create new services and revenue? Beyond M&A, the Federal Reserve's announcement of its FedNow real-time payments service figures to impact the payments ecosystem for years to come.

Amid all this change, we've been focused on three specific areas over the last few months. We've been helping our clients explore investment opportunities in the fintech and acquiring sectors. We've also been helping large lenders better identify and control for risk factors in their lending portfolios, a function at the very core of Oliver Wyman's mission. Finally, we've been helping merchants prepare for even more changes to payments requirements and devise digital strategies to meet these challenges.

One thing is certain: In an era of blockbuster deals and breathtaking technological advances, the only safe bet is on continued change.

Best wishes,

A handwritten signature in black ink, appearing to read 'Rob Mau'.

Rob Mau  
*Partner, Payments*

# DIGITAL WALLETS



## + PAYMENT PREFERENCES

### + CASH REDUCTION

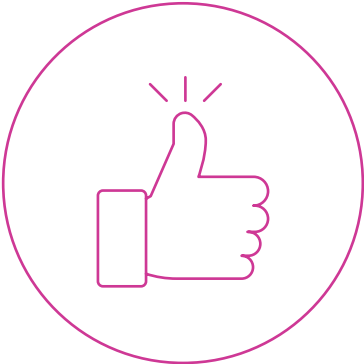
Digital wallets were all the rage a decade ago as Apple, Google, Softcard, and others battled it out for consumer supremacy. But no player has yet come out on top, or even clearly ahead of the pack. We've even seen banks and fintechs stop development on transaction-based wallets in the United States. Outside the US, however, the digital wallet landscape is highly competitive, with banks, fintechs, and investment firms racing to gain ground.

In emerging markets like Mexico, where nearly 50 million people don't have bank accounts, providers are positioning digital wallets as a bridge into the formal financial system. Recently the Mexican government has encouraged payment electrification for the mass market through special fintech-focused rules. For these consumers and the millions of small businesses that serve them, digital wallets could be the leapfrog payment mechanism

that enables the majority of the population to access traditional banking products. At the same time, shifting people away from cash could be incredibly difficult.

**Oliver Wyman** has worked extensively with digital wallet providers to position design and value proposition as key differentiators. Wallets must be simple and intuitive, especially for people and businesses that are accustomed to using cash today. The QR code is emerging as a standard that can facilitate a transaction with minimal hardware investments and can piggyback on the growing penetration of smartphones. But to win the commerce transaction, wallets might need to offer other services and solve problems that are more top of mind for consumers. We're helping clients find those problems to solve and create long-term relationships that can grow into the commerce engines we see in Asia.

# LOYALTY PROGRAMS



## + CUSTOMER ENGAGEMENT

## + ECOSYSTEM STRATEGY

The world of loyalty is changing. US consumers are members of more loyalty programs than ever before, including both financial-institution programs and merchant programs, but overall engagement with programs has decreased. This creates an imperative for programs to differentiate in order to cut through the noise.

The days of basic loyalty programs are numbered as large program managers face cost pressure to justify “giveaways” and incremental spending, while also being pushed to work more closely with marketing and digital channels. Programs increasingly are seeking to evolve beyond a transactional relationship to a more emotional one that is less imitable and can drive greater spending concentration. Market leaders are creating more unique moments by pushing for frequent, high-quality engagement including opportunities beyond spending (e.g., watching a video, or engaging with brand on social media) and more frequent

recognition and redemption (e.g., applying points to a small or partial purchase vs. needing to save for a larger catalog redemption).

**Oliver Wyman** has recently worked with loyalty program managers from credit card issuers, retailers, and brands, as well as providers that service loyalty programs. Projects have included strategic topics like program design, program refresh, and economic analysis, as well as support for selecting provider partners to deliver on a long-term vision for loyalty. Across projects and clients, one phenomenon is consistent: Consumer behavior is rapidly evolving. Large programs need to be refreshed, and service providers need to support the more creative, flexible, holistic programs that are emerging from those refreshes. The support needed from providers is both consumer-facing functionality delivered in a modern, flexible architecture, and program-facing analytics and insights that help to influence consumer behavior.

# INVESTING IN MERCHANT ACQUIRING





## + DISTRIBUTION MODELS

## + NEW TECHNOLOGIES

Merchant acquiring has been one of the most active spaces recently for M&A and private equity investment, driven by 6% growth in total volume in the US and more than 10% growth in electronic- and mobile-commerce volume. We expect continued innovation and tailoring toward digital and mobile services to make this an attractive sector for investment.

For an acquirer to compete effectively in this area, we have found that it needs proprietary technology, a strong distribution model, and the foresight to be ready for wherever the market is likely to go next – particularly in support of digital commerce.

**Oliver Wyman** recently worked with a large global investment fund to explore the merchant acquirer segment in North America. By deconstructing the growth forecasts and competitive pressures across distribution channels and e-commerce, we were able to shine a light on the key sectors for investment. While we continue to see consolidation of the very large players, smaller players are carving out viable niches. We helped our client understand the importance of the independent software vendor (ISV) channel, the complexity of the payment facilitator (PayFac) model, and the required level of advanced analytics to create an advantage.

# RECESSION READINESS PLANNING



## + ADVANCED ANALYTICS

## + RISK MITIGATION

At 10 years and counting, the United States is enjoying the longest economic expansion in its history, with the unemployment rate at record lows and consumer confidence near record highs. At the same time, student, auto, credit card, and personal loan levels have continued to grow, resulting in rising delinquency and charge-off rates. As a result, lenders and payments providers must consider what the next recession will look like, when it might happen, and what can be done now to prepare.

**Oliver Wyman** has been working with issuers and payments providers to understand new and emerging risks, such as whether they have been extending credit responsibly to customer populations already burdened with student or personal loans. Through this work, we identified populations of newer borrowers who have not been tested in a recession and have different characteristics and credit profiles from those of typical borrowers during the 2008 recession. Today's borrowers can

be characterized by higher levels of student debt, lower savings, and less home ownership, which could make credit card losses under economic stress difficult to predict. To better understand these populations, we applied advanced analytics on historical tradeline consumer data.

By finding consumers in the 2008 recession with similar characteristics to this new population, we can build scenarios to understand what might happen in the next recession. This allows us to work with lending clients to develop an understanding of these untested segments. Through detailed analysis and ongoing monitoring, we help clients plan for the appropriate level of losses while taking actions now to help control losses as the economy turns. This allows our clients to intelligently trade higher profits today for known losses in a future recession and come out on top.

# THE FUTURE OF BILL PAYMENTS



## + BILLER DIRECT

## + DIGITAL PAYMENTS

Electronic bill payment has been on a long journey in the US over the past two decades. In consumer bill payments, banks initially won the day by directly integrating billing into customer portals. More recently, however, the biller direct model has won share from banks, hurting their ability to retain customers. And now, new tech players are developing white-labeled and direct-to-consumer interfaces to create a stronger experience. Going forward, we expect the way consumers pay – via cards and faster payments rails, rather than check and ACH – to impact bill-pay economics.

**Oliver Wyman** recently worked with an investment fund to investigate future trends in bill payment. For instance, consumer preferences are likely to shift as younger generations, who prefer digital and biller-direct channels, increase their bill pay volume. A new wave of tech-enabled players, meanwhile, are setting their sights on bill pay, which has more pain points than the typical payment use case. Our work covered both consumer and business bill payment, with a focus on emerging consumer-facing technologies and the use of new payment rails. The result: the fund was able to refine its investment approach and narrow its focus on the most valuable opportunities.

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.

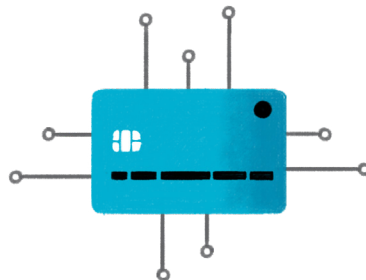
## THE COMPETITIVE BATTLEGROUND IN SOFTWARE-ENABLED PAYMENT SOLUTIONS

In the United States, small- and medium-sized business (SMB) payments services have long since evolved from a simple utility into a core component of software-driven, vertical-specific platforms. Oliver Wyman estimates that SMBs represent half of the total US acquiring market by revenue, of which nearly half of the SMB market is concentrated in software-based solutions.

For acquirers, the integration of business software and payments has been a boon for growth, merchant stickiness, and profitability. However, as software providers mature, they are now demanding more from their payments partners: more functionality, greater service, and most important, better economics.

## OLIVER WYMAN'S SMALL BUSINESS INSIGHTS

Oliver Wyman conducted a series of interviews with SMBs, software platforms, and merchant services providers about the state of the SMB software-driven payments market. The results were clear: Merchant services providers will need to adapt in order to win in this competitive space, and software providers have room ahead for additional gains.



## MERCHANT SERVICES PROVIDERS HAVE TWO OPTIONS TO COMPETE...

Ease of Execution

Long-Term Differentiation

</> **PARTNER WITH SOFTWARE PLATFORMS**

Acquirers plug into software platforms on the back-end to provide payments services as a modular component of a broader offering

**Differentiators**

- For the software provider, pricing and quality of the acquirer's APIs/SDKs for integration
- For the acquirer, number of partnership and level of exclusivity with each partner

VS

⚙️ **DEVELOP PROPRIETARY OFFERING**

Acquirers develop a payments-centric commerce ecosystem with both front-and back-office tools for SMEs

**Differentiators**

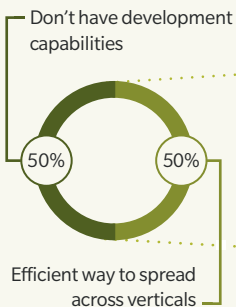
- For the merchant, ease of use and ability to solve problems in addition to payments (e.g., accounting, inventory, etc.)
- For the acquirer, distribution strategy of leveraging sales agents, resellers, or retail

## ...AND ARE PURSUING BOTH "PARTNER" AND "OWN" STRATEGIES

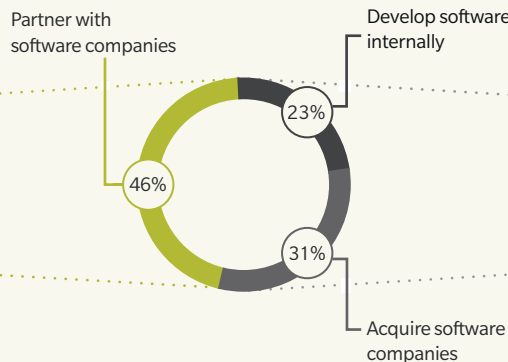
### Overview of reasons why to partner or acquire

If you are a merchant acquirer or ISO, how do you plan to grow your software-enabled channel and why?

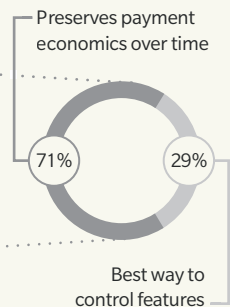
#### WHY PARTNER?



#### PARTNER VS OWN



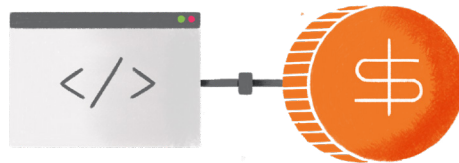
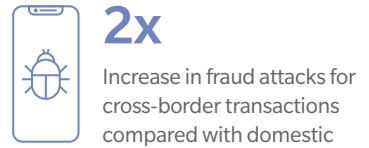
#### WHY OWN?



## IS YOUR PAYMENTS STRATEGY GLOBAL?

Merchants are increasingly going global, requiring a global digital payments strategy to exploit opportunities and minimize risks. There are many considerations, including local forms of payment, different acquirer and gateway relationships, fraud risks, FX, and more.

### CROSS-BORDER DIGITAL COMMERCE





# OLIVER WYMAN'S GLOBAL PAYMENTS FRAMEWORK

Our international expansion framework covers each step of what is required for merchants and providers to "go global"

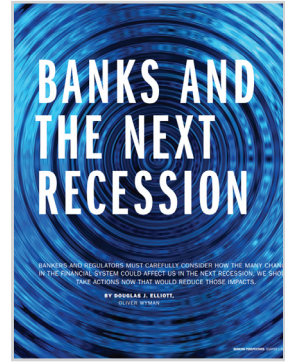


Oliver Wyman publishes a broad range of points-of-view across industries. A sample of our recently released intellectual capital is shown here. All of our reports can be accessed on our Website

# REPORTS



Payments In Retail



Banks And The Next Recession



Time To Switch Rates:  
Libor Transition



Data Privacy: Growing  
Expectations (And Risk)  
For Financial Institutions



Where China Is Leading The Mobility Revolution



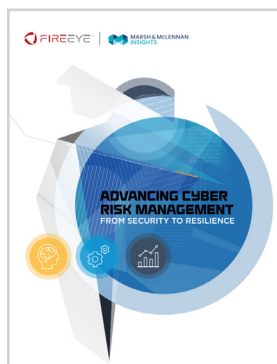
From Risk To Strategy: Embracing The Technology Shift



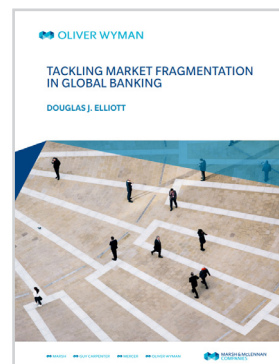
Global Wealth Managers: Out Of The Pit Stop - Into The Fast Lane



Media Investments In The Digital Era

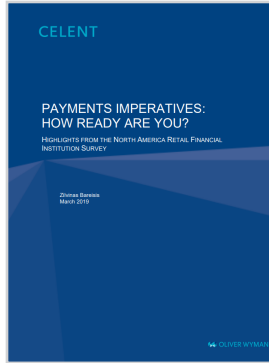


Advancing Cyber Risk Management: From Security To Resilience

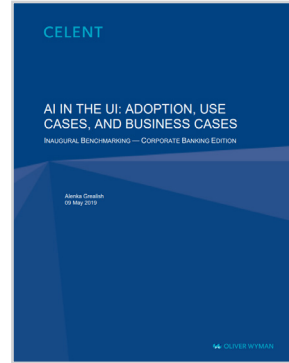


Tackling Market Fragmentation In Global Banking

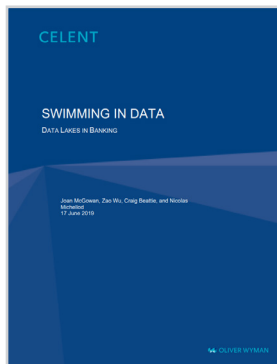
Celent, a division of Oliver Wyman, is the leading subscription research and advisory firm focused on financial services technology.



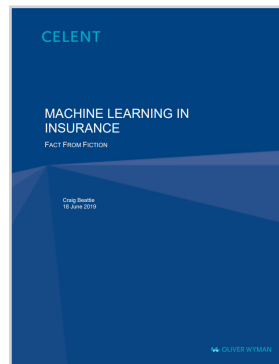
Payments Imperatives:  
How Ready Are You?



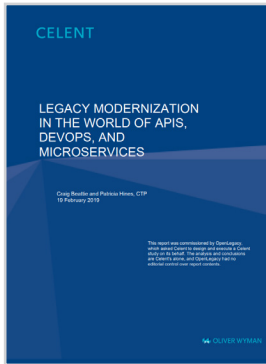
AI In The UI: Adoption, Use Cases,  
And Business Cases



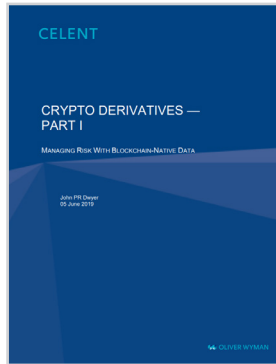
Swimming In Data:  
Data Lakes In Banking



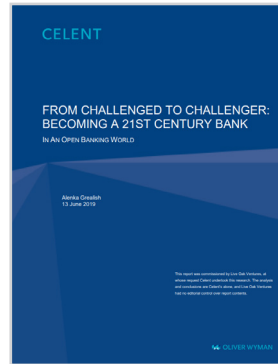
Machine Learning In Insurance:  
Fact From Fiction



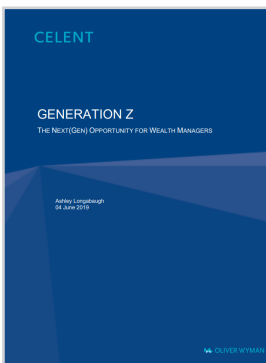
Legacy Modernization In The World Of APIs, DevOps, And Microservices



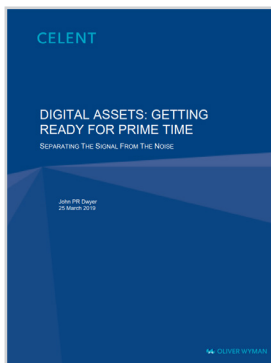
Crypto Derivatives — Part I



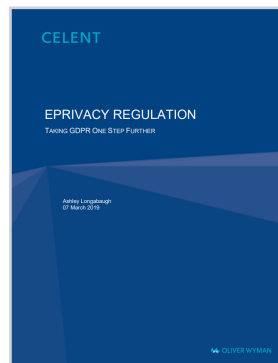
From Challenged To Challenger: Becoming A 21st Century Bank



Generation Z: The Next(Gen) Opportunity For Wealth Managers



Digital Assets: Ready For Prime Time



ePrivacy Regulation: Taking GDPR One Step Further

SEPTEMBER

17-19  
Arizona

## MERCHANT ADVISORY GROUP (MAG) ANNUAL CONFERENCE 2019

**Rob Mau** and **Rick Chavez** will kick off the first-ever MAG Tech Forum with a keynote session covering fintech and how merchants should think about, embrace, and create innovation opportunities in the world of fintech.

**Beth Costa** will moderate a panel discussion on "Ask Siri, Alexa, Google – How do payments work in these environments?" to explore how merchants can prepare for the evolution in payments as the internet of things gains traction among consumers.

18-20  
Los Angeles

## PAYTHINK

**Tony Hayes** will moderate a panel discussion on "Pinpointing Customer Needs and Revenue Opportunities in the New Payments and Banking Landscape" with Affirm, BBVA Compass, and HSBC.

**Russell Jones** will present findings from our proprietary Digital Payments Study during a session titled "Driving Growth With Digital Payments."

**Rob Mau** will moderate a panel discussion on "Faster Payments: Bringing It All Together," with McDonald's, Visa, and Wells Fargo.

OCTOBER

27-30  
Las Vegas

## MONEY 20/20

**Pablo Haberer** will chair the Latin American payments track at the conference and moderate a panel discussion on "Lessons from Winners in LATAM Payments."

**Beth Costa** will host a pre-conference workshop on "Combating Good User Declines" and moderate a panel discussion on "The Future of Merchant Payments: Transforming to a Digital-First Approach."

**Tony Hayes** will lead a fireside chat with the CEO of Green Dot.

**Rob Mau** will moderate a panel discussion on "Navigating the New World Order of Payments and Fintech."

PAYMENTS + BRAND

PAYMENTS + DIGITAL

PAYMENTS + STRATEGY

PAYMENTS + OPERATIONS

PAYMENTS + TECHNOLOGY

PAYMENTS + PARTNERSHIPS

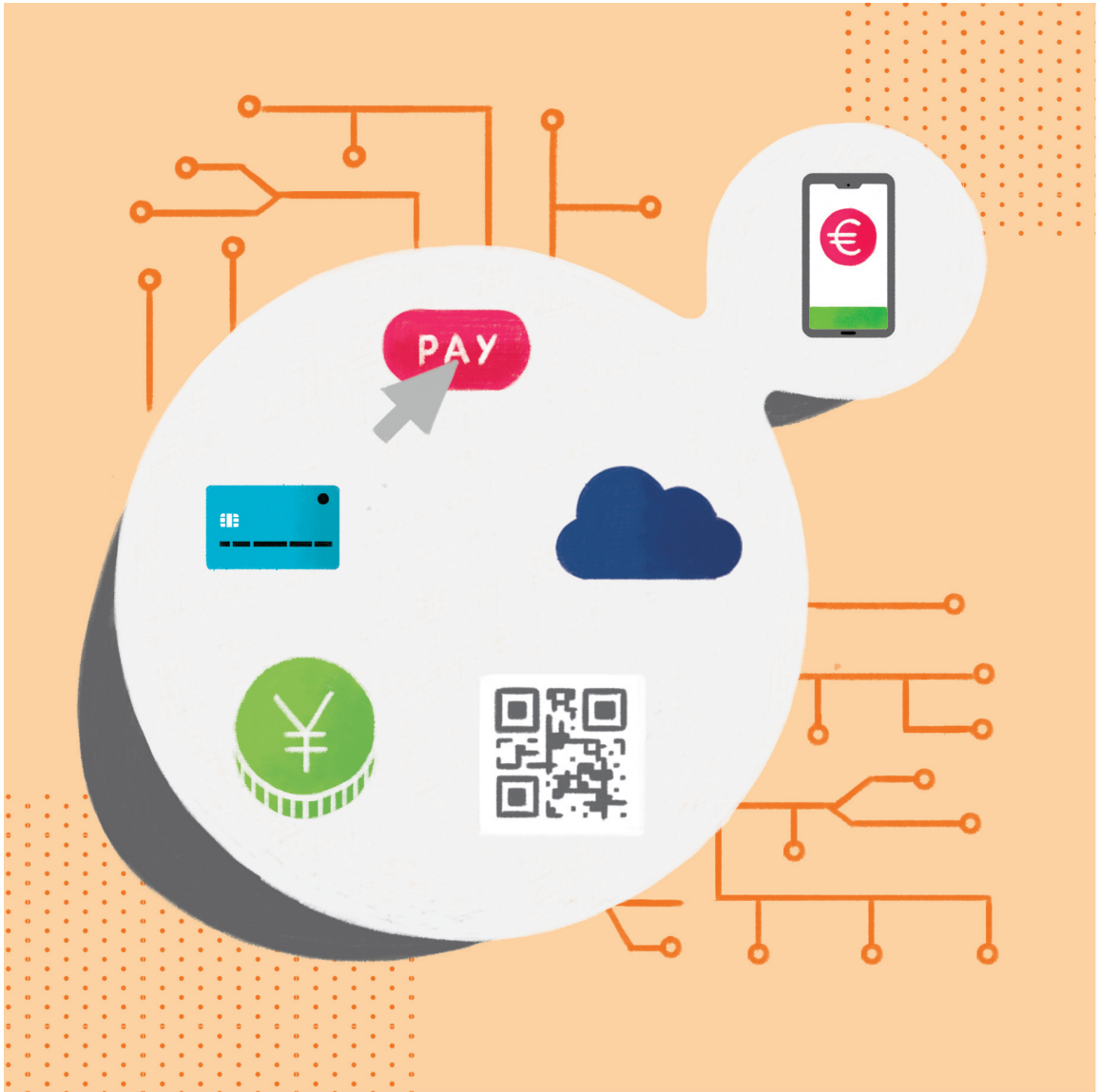
PAYMENTS + DUE DILIGENCE

PAYMENTS + DATA & ANALYTICS

PAYMENTS + RISK MANAGEMENT

PAYMENTS + CUSTOMER EXPERIENCE

PAYMENTS + ORGANIZATIONAL EFFECTIVENESS



Oliver Wyman is a global leader in management consulting  
with offices in more than 60 cities across 29 countries

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