



# PAYMENTS PLUS





## A FRESH PERSPECTIVE

Welcome to spring! We are delighted to bring you the latest quarterly installment of *Payments Plus*, which is energized and enhanced by the excellent feedback you have provided us over the past six months.

Like the leaves on the trees and the petals on the flowers, businesses are budding all over the world. Today's digital technology allows even the smallest and most locally focused among them to be truly global in scope. That brings tremendous opportunities – from more customers and faster revenue growth to better choices of payments vendors.

But going global also requires a fresh perspective and informed answers to a raft of new questions. Which forms of payment and mobile wallets should be supported in each market? What regulatory and compliance considerations need to be addressed? What are customer expectations in, say, Southeast Asia versus the European Union versus the United States? What types of risks do you need to guard against? Which languages do you need to support on your website, mobile app, ATMs, and in your customer centers?

The list goes on and on. And these questions confront virtually all businesses, from banks and merchants to payment networks and providers, and from business-to-business to business-to-consumer companies.

With payments partners in every major market around the globe, Oliver Wyman is able to provide locally relevant expertise, regional payments knowledge, and global understanding – all at once. Please dive into our spring issue for insights and perspectives that can keep your business blooming.

Best,

*Beth Costa*

Elizabeth Costa

*Partner, Payments and Retail Banking*

# DIGITAL PAYMENTS STRATEGY



## + PAYMENTS AS A BUSINESS

## + PAYMENTS TRANSFORMATION

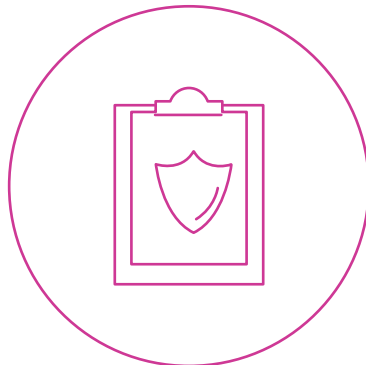
Digital payments have been a tale of two themes for merchants. On one hand, they drive increased sales and lay the groundwork for accelerated growth in the core business. On the other, they are fraught with challenges in terms of more demanding customer experiences, managing fraud, launching partnerships, navigating IT queues, and more.

**Oliver Wyman** has recently worked with global merchants to strengthen their payments strategies as they seek to drive digital growth in their core business. In one engagement with a restaurant chain, we co-developed a global digital-payments strategy focused on acquiring customers and retaining existing users through digital payments. We focused on linking stored value and loyalty, optimizing fraud controls, and using local forms of payment that match customers' preferences. For another retailer,

we identified an opportunity to develop a new payments ecosystem including streamlining its checkout experience, creating a globally scalable solution, and launching new payments-related financial services solutions. The result? An additional 20% in growth to its bottom line.

Merchants can increase sales, limit risk exposure, and drive their core business with a holistic digital payments strategy. It requires payments leaders to engage across the organization, including product, technology, compliance, risk, and marketing teams – areas where perhaps they might have had limited interactions in the past. And, for some merchants, payments might also present a shift in thinking to view digital payments as a new revenue and margin opportunity – not simply a cost of doing business.

# REIMAGINING HEALTHCARE PAYMENTS



## + DIGITAL PAYMENTS

## + PARTNERSHIPS

The roughly 50% increase in high-deductible health plan usage since 2010 is shaking up the US healthcare industry, with significant implications on healthcare payments. As many consumers shoulder increased responsibility for out-of-pocket care costs, two payments-related markets in particular are showing tremendous growth.

One category is digital solutions that help providers collect self-pay amounts. Five years ago, the proportion of self-pay at typical providers was minimal, meaning the generally abysmal collection rates on self-pay amounts – often less than 20% – were a headache but not a crisis. Now that the proportion of self-pay has increased substantially due to high deductible health plan (HDHP) adoption, low collection rates are becoming a top-of-mind concern. As a result, providers are seeking out an emerging group of venture-funded digital solution vendors to improve collection through engagement before care, at the point of care, and post-care.

The second booming category: consumer flexible-spending and healthcare savings accounts. As more people use these accounts, the market is spawning greater innovation. Market participants are catering to growing niches (e.g., those who use their health savings account (HSA) as a retirement account) and card issuers are stepping up their game with digital tools that encourage active account management and reinforce card usage.

**Oliver Wyman** has recently supported investors, payments players, and healthcare providers to evaluate the scale and speed of change in health care payments and examine the resulting opportunities. These engagements have included defining the market landscape, evaluating partners, deep-diving specific opportunities, and generating perspectives on and quantification of current or forthcoming developments. Through an in-depth understanding of payments and healthcare, we are bringing insight to players that are typically expert at one side but not the other.

# COMPETITIVE STRATEGIES FOR GROWTH





## + MARKET DISRUPTION

## + PRODUCT AND CLIENT STRATEGY

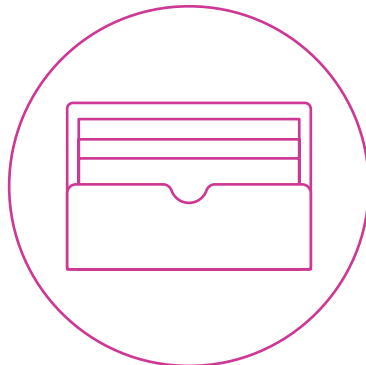
The competitive landscape in the payments market is undergoing rapid change. With new entrants bringing disruptive solutions across the entire value chain, from gateways and issuer processing to networks and value-added services, providers are being pushed to revisit their strategic priorities. Maintaining market share against the backdrop of price and margin compression, while also driving the right innovation agenda, continues to be a challenge.

**Oliver Wyman** has supported payments companies in developing competitive intelligence and associated strategies to enable them to navigate known movements, uncertain developments, and unknown disruptions. Competitive intelligence supports strategic decisions through a broad understanding of relevant market developments and a consistent process to monitor and respond to them.

Oliver Wyman recently brought this objective, outside-in view to a global payments company functioning across the payments value chain. The company needed to understand changes in one of its major Latin American markets that posed threats as well as opportunities. In the short term, the company's market leadership position was being threatened by aggressive competition, forcing it to compress margins to maintain share. We were able to provide new data and insights to the client, and showed that much of its commercial agenda was driven by internal capabilities and products the company wanted to push, instead of market need and demand.

Developing relevant market intelligence requires a structured framework to identify, group, and assess the impact of each market development in order to prioritize them. Prioritizing initiatives in alignment with market needs and demands has had significant impact for our clients, ranging from preventing a 50% decline in market share to increasing revenue by 100%.

# DEBIT CARDS ASSESSMENT



## + DEBIT PORTFOLIO PERFORMANCE

### + MOBILE WALLETS

Demand deposit accounts are the heart of the banking relationship, and the ways customers transact through their accounts are evolving. Previously, there were a limited number of defined “access points” to the demand deposit account, with debit playing a major role. Today, there are multiple access points including wallets, tokenized transactions, and P2P, among others, even as debit cards remain a core product offering for issuers and a significant source of revenue.

To track trends and changes in debit usage by consumers, **Oliver Wyman** conducts an annual Debit Issuer Study, now in its 14th year. The study spans a wide range of topics including network participation, transaction volumes and portfolio performance, interchange and transaction economics, fraud, mobile wallets, and emerging themes such as instant debit card issuance and contactless cards. The study includes roughly 60 issuers representing 150 million cards and more than 40% of all US debit transactions.

One of the findings from a recent study was that, at an industry level, debit card program revenue has returned to pre-Durbin Amendment levels, driven by cumulative transaction growth of roughly 50% since 2011. On the subject of mobile wallets, even with continued promotions by debit issuers, customer adoption remains low, with mobile wallet transactions performed using debit cards accounting for just 0.6% of all debit volume. From a fraud standpoint, the net losses per transaction declined by roughly 10% year-on-year on account of increasing EMV penetration and better use of data and tools to prevent fraud.

Issuers can use the benchmarking from this study to improve the performance of their debit card portfolios. For example, we found that a mid-sized regional bank could improve its debit card revenues by \$20 million a year if it were able to improve penetration, activation, usage, and fraud to levels of the top quartile of debit issuers in the US.

# CREDIT CARD COLLECTIONS



## + DIGITAL COLLECTIONS

## + MINIMIZING CHARGE-OFFS

Many credit card issuers have posted increasing levels of charge-offs since 2015, bringing more focus on delinquencies and collection practices. At the same time, many issuers have not invested enough in their collections operations, technologies, and policies, leading to processes that often are outdated, inefficient, and mostly manual. For example, digital has become the primary channel for customer interaction with their banks, yet collections operations still rely heavily on traditional outbound call-centers – an approach that is becoming increasingly ineffective given the low proportion of consumers who answer their phones.

**Oliver Wyman** recently worked with several credit card issuers to optimize their approach to collections, ensuring it is effective and scalable. We found opportunities both in pre- and post-delinquency. For example, organizations could enrich customer information before

delinquency, enhance portfolio monitoring and management to minimize the flow of accounts into collections in the first place, use analytics to segment customers (such as by exposure, risk, behavioral dimensions, preferred contact channel, and so on), develop tailored contact strategies, conduct trade-off analyses (e.g., self-cure vs. contact), and deploy an omni-channel approach throughout the collection process.

Modernizing collections can help issuers reach customers with the right collections terms at the right time, making collecting more effective and efficient. What's more, identifying at-risk customers early and facilitating treatments will ensure that accurate information is available at the time of delinquency. By modernizing digital channels and ensuring they are properly equipped and available, credit card issuers can reduce net write-offs by as much as 10%.

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.

## DOES YOUR ORGANIZATION HAVE A PAYMENTS RISK TAXONOMY?

A payments risk taxonomy is a structured, hierarchical classification of a company's key payments risks that can serve as the foundation for robust risk management.

We see potential for a payments risk taxonomy to create tremendous benefit for banks, merchants, and processors – especially in digital payments, where new elements of fraud and risk arise almost weekly. For example, in online and mobile commerce, in addition to grappling with the risks of accepting card-not-present payments, merchants, banks, and providers are faced with an increasingly complex set of risks related to online and mobile authentication, account takeover, order fulfillment, and so on.

## BENEFITS OF AN END-TO-END PAYMENTS RISK TAXONOMY

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Provides a common language to be used across teams

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Enables development of a better understanding of losses and supports clearer definition of risk focus areas and ownership

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Informs risk prevention tactics and remediation

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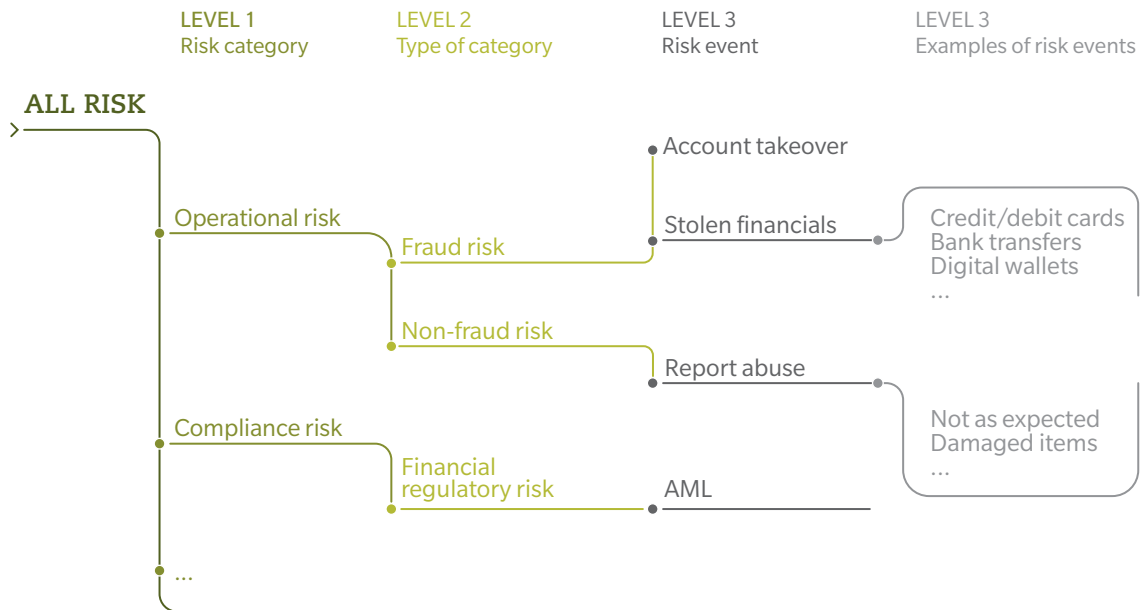
Guides selection of key risk metrics for ongoing risk monitoring and reporting

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## EXAMPLE OF A TAXONOMY STRUCTURE

There is no one-size-fits-all model as taxonomies vary for banks vs. merchants vs. processors vs. technology partners. For example, a merchant’s taxonomy is based on its industry as well as its corporate business model, channels, and markets. For e-commerce merchants, common risks include fraud and abusive buyer behavior. For more complex structures such as dual-sided marketplaces, even more detailed risk profiles need to be considered for both buyer risks and seller risks.

## EXAMPLE TAXONOMY STRUCTURE FOR E-COMMERCE MERCHANTS



**Oliver Wyman** can help you build and implement a payments risk taxonomy for a comprehensive understanding and management of payments risks. The results: better experience for your customers and lower fraud losses for your company

## IS FRAUD ZAPPING YOUR REVENUE GROWTH?



**10 OUT OF EVERY 100**

good customers are turned away due to fraud concerns



**70% OF MERCHANTS**

would like to start catching bad actors before checkout

**25% of fraud fighting**

costs are incurred by manual review processes



of merchants are concerned about higher fraud from mobile

**Cost to fight fraud = 3x losses**

incurred by merchants



**8 fraud solutions**

deployed per merchant, up from roughly 5 in 2017

Fraud costs equal **3X INTERCHANGE**

paid by merchants for card-not-present transactions



# OLIVER WYMAN FRAUD FRAMEWORK

Is your fraud strategy built to identify the **right risk** treatment, for the **right customers**, at the **right time** in the customer journey?



## 1. ACCOUNT CREATION

Are you leveraging a consortium of fraud data to root out compromised accounts from day one?



## 2. CARD ENROLLMENT

Are you relying on card authentication from third party wallets, or are you conducting your own risk checks?



## 4. ORDER CREATION

Are you using customized paths to provide the best experience for each customer?



## 3. ACCOUNT LOG-IN

Have you mastered AI-based risk management in real time?



## 5. PAYMENT TRANSACTION

Are you minimizing fraud dollars lost? If so, you may be targeting the wrong outcome.

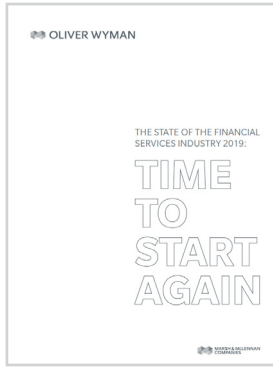
## 6. POST-TRANSACTION

Are you protecting against fraud post-transaction including shipping, friendly fraud, refund abuse, etc.?

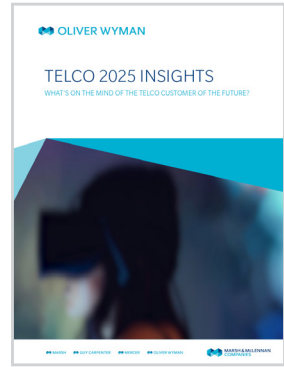
**Oliver Wyman** can help you maximize sales and protect your customers from increasingly complex fraud schemes. We frequently support merchants in evaluating their fraud approach and optimizing their risk management for future business growth.

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



TIME TO START AGAIN:  
THE STATE OF THE FINANCIAL SERVICES INDUSTRY 2019



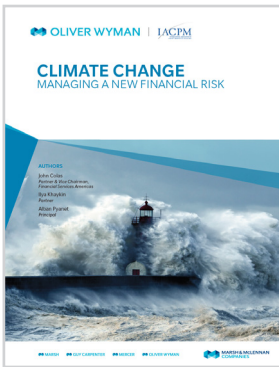
TELCO 2025 INSIGHTS



THE DECLINE OF CENTER STORE:  
FIGHT OR FLIGHT?



PARTNERSHIPS: KEY TO SUCCESS  
IN THE ONLINE AGE



CLIMATE CHANGE:  
MANAGING A NEW  
FINANCIAL RISK



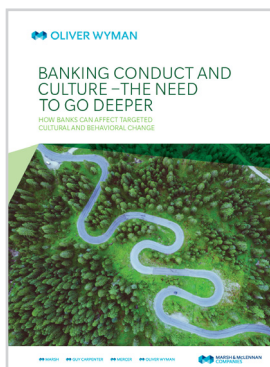
2019 AFP RISK  
SURVEY REPORT



PREPARING FOR THE AGE  
OF THE DIGITAL ATTACKER



DIGITAL MEDIA PLAYS  
INCREASING ROLE FOR  
CHINESE TRAVELERS



BANKING CONDUCT  
AND CULTURE – THE NEED  
TO GO DEEPER

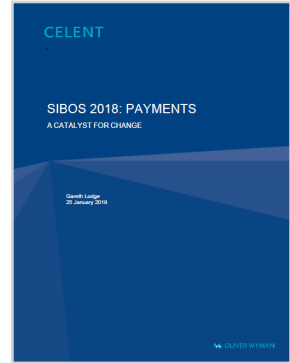


OLIVER WYMAN ON MOBILITY:  
THE MOBILITY REVOLUTION

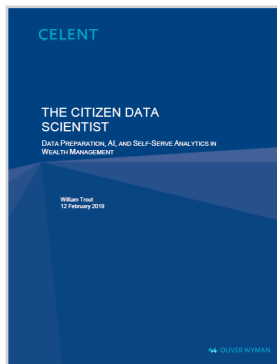
Celent, a division of Oliver Wyman, is the leading subscription research and advisory firm focused on financial services technology.



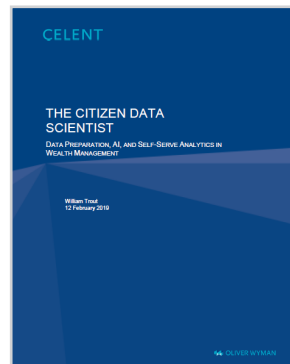
TOP TRENDS IN RETAIL  
PAYMENTS 2019: KEY IMPERATIVES  
FOR CARD ISSUERS



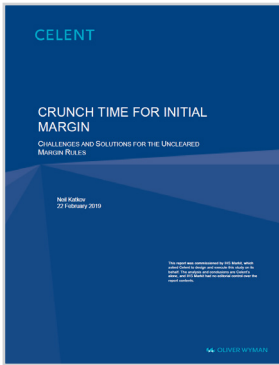
SIBOS 2018: PAYMENTS



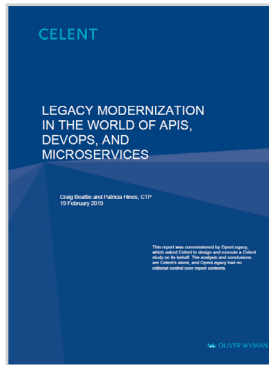
THE CITIZEN DATA SCIENTIST: DATA  
PREPARATION, AI, AND SELF-SERVE  
ANALYTICS IN WEALTH MANAGEMENT



LIFE INSURANCE CIO PRESSURES  
AND PRIORITIES 2019: NORTH  
AMERICAN EDITION



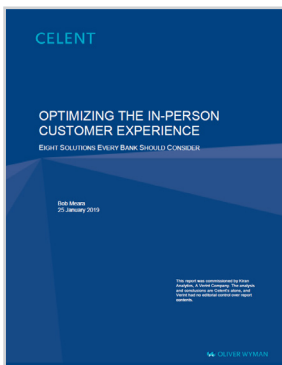
CRUNCH TIME FOR INITIAL MARGIN:  
CHALLENGES AND SOLUTIONS  
FOR THE UNCLEARED MARGIN RULES



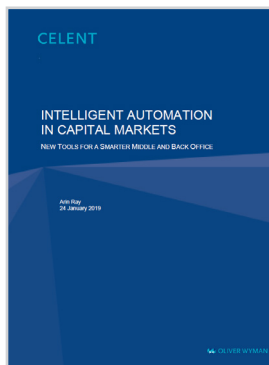
LEGACY MODERNIZATION IN  
THE WORLD OF APIS, DEVOPS,  
AND MICROSERVICES



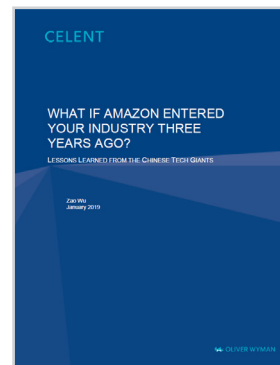
INSURANCE INNOVATION  
OUTLOOK 2019:  
PRACTITIONERS' PREDICTIONS



OPTIMIZING THE IN-PERSON  
CUSTOMER EXPERIENCE



INTELLIGENT AUTOMATION  
IN CAPITAL MARKETS



WHAT IF AMAZON ENTERED  
YOUR INDUSTRY  
THREE YEARS AGO?

MAY

5-8  
Orlando

### NACHA PAYMENTS 2019

**Rob Mau** will moderate a panel discussion on "The Future of Merchant Payments: Transforming to a Digital-First Approach."

The panelists are:

- **Reed Luhtanen**, *Sr. Director, Payments Strategy, Walmart*
- **Amit Thummala**, *Director, Global Digital Capabilities, McDonald's*
- **Beth Provenzano**, *Vice President, Public Affairs, Merchant Advisory Group*

The session will explore how leading enterprise merchants view the future of digital commerce and the role of payments, and also the implications for merchants and merchant services providers of digital payments.

21-23  
New Orleans

### CARD FORUM 2019

**Cosimo Schiavone** will moderate a panel discussion on "Rolling Out Security Initiatives Without Disrupting Your Customers' Experience." The panelists are:

- **Philip Ambrose**, *Head of Fraud Strategy and Operations, LendUp*
- **Pierre Barrial**, *Group Executive VP of Financial Institutions, Idemia*

The panel will discuss how issuers, merchants, and other key players are thinking about fraud, why these differing vantage points cause friction for customers, and how we are likely to see an evolution in the future to enhance security, while reducing friction.

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 60 cities across 29 countries**

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