

# The Future of Banking & Payment: An Overview

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## The Channel Distribution Dilemma for Banks

1 In a new survey conducted jointly by McKinsey and Efma<sup>1</sup> that covered 3,000 customers from 150 banks in Europe, a complex and fast moving trend is developing in the area of how banks should be implementing their multi-channel efforts to reach their customers. For instance, in 2010, retail bank customers bought their consumer financial products via branches (73%) and e-Channel comprising ATM, Internet & Mobile (12%) but this trend is projected to change by 2015 according to the survey: Branches (32%) and e-Channels (47%); 400% increase over 5 years! The greatest change is expected to occur in the setting up or opening of savings account which is predicted to be carried out via the e-Channel (59%) compared to the current 16%. Correspondingly, savings account opened at branches will drop from 77% (2010) to 38% (2015). See Chart below:

**CHART 1: CONSUMERS WILL CONTINUE SEEKING FACE-TO-FACE ADVICE WHEN BUYING MORE COMPLEX PRODUCTS SUCH AS MORTGAGES AND INVESTMENTS**



<sup>1</sup> Internet, ATM, mobile  
SOURCE: Efma online survey across 150+ European banks

2 The survey reported that customers and the banks would ultimately expect distribution to become increasingly multi-channel with face-to-face channels focused on sales and complex advices while the bulk of banking transactions on their savings and current account and even basic investment and insurance will be conducted electronically via credit or debit card or through ATMs and mobile devices. Besides the ability to manage multi-channel integration in a seamless manner to service their customers from a wholesome and customer-centric perspective, banks are also facing the dilemma of how to generate sufficient leads for the branches and its mobile sale force while meeting the customers' desire to use the remote channels.

### Significant Growth in Online Payment

3 In another recent report by Business Insight<sup>2</sup>; the largest revenue generating segment of the advanced payments industry is the online payment segment, which will increase from US \$725B to US\$1800B to record a Compound Annual Growth Rate (CAGR) of 19.9%. However, the highest growth rate will be witnessed by the mobile payments segment which will post a CAGR of 101.6% to increase from US\$15B in 2010 to US\$500B in 2015.

Revenues (\$bn)	2010	2011	2012	2013	2014	2015	CAGR
Online	725	900	1,100	1,250	1,600	1,800	19.9%
Mobile	15	25	50	100	300	500	101.6%
Contactless	-	-	50	100	200	400	51.6%*
<b>Total Alternate payments</b>	<b>740</b>	<b>925</b>	<b>1,200</b>	<b>1,450</b>	<b>2,100</b>	<b>2,700</b>	<b>17.6%</b>
Growth (%)	-	25.0%	29.7%	20.8%	44.8%	28.6%	29.5%

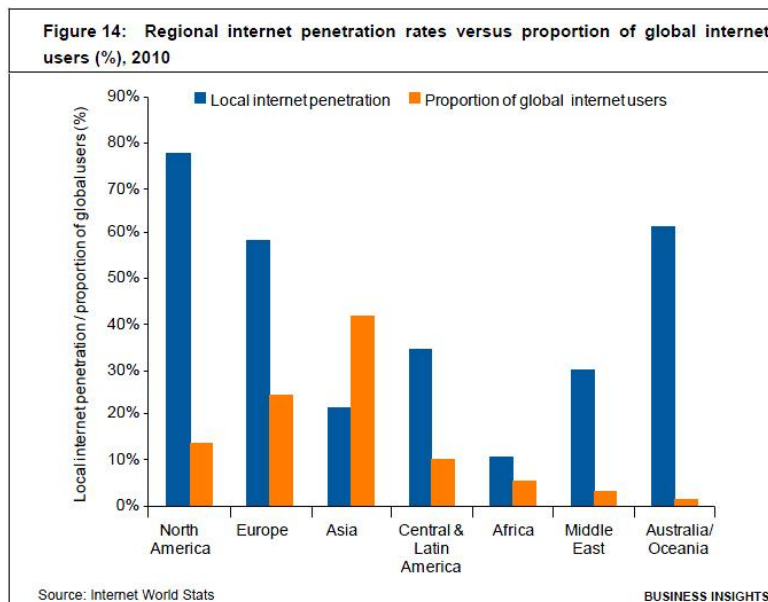
\*CAGR figures are for the period 2012–15.

Source: Business Insights BUSINESS INSIGHTS

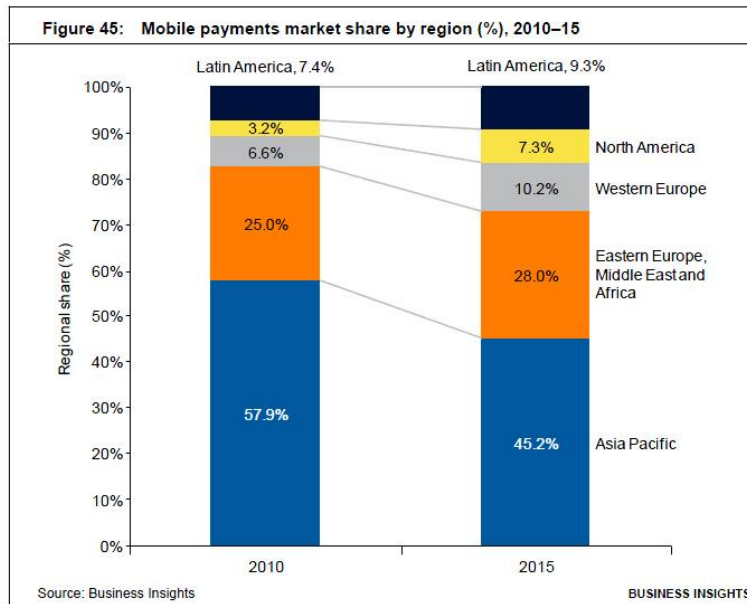
4 The growth of online payments in particularly internet payment is driven mainly due to the increasing usage of internet arising from higher penetration rates across different region. Business Insight<sup>2</sup> reported that the total number of internet users increased from 1.093B in 2006 to 2.05B in 2010; a two-fold increase in just 4 years. Internet penetration as a percentage of world population increased from 16.7% in 2006 to nearly 30% in 2010.

5 Further analysis of the internet penetration rates by regions revealed the following:

- While North America has the highest internet penetration rate of 77.4%; this represents only 13.%% of global internet users
- Asia has an overall internet usage of 42% but registered a 21.5% of the global population of internet users



6 Although Asia-Pacific accounted for a high number of internet users from a global internet user base, Business Insight<sup>2</sup> predicted that the trend in mobile payment market share in the Asia-Pacific region will however declined from its current 57.9% (2010) to 45.2% by 2015. The decline is mainly due to the higher adoption of smart phones in markets outside the Asia-Pacific that has seen robust growth in the usage of smart phone applications for social networking, communication, multi-media usage and mobile payment. Other regions are however picking up quickly in the adoption of smart phones and mobile payment applications.



### The Future of Mobile Payments

7 While Business Insight predicted a declined in mobile payment market share for the Asia-Pacific region which comprises mainly emerging economies, the World Payment Report 2010<sup>3</sup> provided a more optimistic view of the mobile payment medium for the emerging countries over the next few years. According to the report, the development of e- and mobile payment is driven primarily by country specific economics, technological and social factors that not only shape the penetration and adoption of the different payment methods (see chart below):

**Figure 1.9 Developed Markets Are Better Positioned for E-Payments; Emerging Markets Are Ripe for M-Payments**

FACTOR	DEVELOPED			EMERGING		
	Value	Impact on M-Payments	Impact on E-Payments	Value	Impact on M-Payments	Impact on E-Payments
Banking Infrastructure	Developed	+	+	Low Penetration	+	-
Internet Penetration	High	+	+	Low	+	-
Mobile Penetration	High	+	-	High	+	-
Computer Literacy	High	+	+	Low	-	-
Payment Preference Legacy	Cards	-	+	Cash	+	-
Emigration	Low	-	-	High	+	+

Legend: ■ Developed Regions ■ Emerging Regions

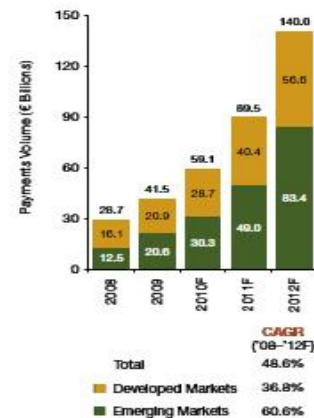
Source: Capgemini analysis, 2010

8 The World Payments Report 2010 noted that unlike developed markets that have a well-established banking infrastructure, the general population in emerging markets generally does not have access to traditional banking services. In many of these countries, traditional banking services are also beyond the reach of large segments of the population. However, in many of these countries, mobile phone penetration rates are rather high.

10 Research conducted by the World Payments Report 2010 showed that in South-East Asia, mobile payment transaction have reached the billion mark with mobile channels frequently being used for shopping, travel reservations and payments, product research (via web surfing) and conventional banking transactions.

On the other hand, in developed markets where there are presence of well-established banking infrastructure and high internet penetration, mobile payment services are still at a more formative stage plagued by a multiple of differing standards, unclear business models and less co-operation amongst telecom operators, financial institutions, device manufacturers and other stake holders.

**Figure 1.10 Global Mobile Payments Market Volume (€ Billions), 2008–2012F**



Notes: (1) Developed markets for m-payments consist of Western Europe, North America, Japan, South Korea and Australia; (2) emerging markets for m-payments consist of Eastern Europe, Latin America, Africa and Rest of Asia; (3) F represents forecast  
 Source: Capgemini analysis, 2010; figures may not add due to rounding

WORLD PAYMENTS REPORT 2010

11 The differences between developed and emerging markets are further illustrated by the way in which banks view telecommunications companies. According to Boston Consulting Group<sup>4</sup>, in developed markets; interactions between participants: banks, network providers, equipment manufacturers and merchants are well-established. Likewise, there is also clear regulatory framework in place for the governance of these various players. In emerging markets, by contrast, telcos have shown that they have a significant value-add proposition for payments ecosystems that are still constrained by limited physical and electronic infrastructures. Moreover, governments, central banks, and regulatory bodies often have vested interest to migrate cash to electronic payments and therefore often play key roles in influencing the overall payment infrastructure development and in many cases, the pricing and pricing mechanism.

12 In general, the mobile payments market has significant potential in the medium to long term, but all stakeholders (network operators, banks, payment-card networks, merchants, and mobile device manufacturers) will need to collaborate to shape and influence economics of mobile payments business models, manage risks and ensure that all parties in the ecosystems benefit from the participation.

**Notes:**

<sup>1</sup> Face-to-Face: A €15-20B Multi-Channel Opportunity by McKinsey & Company, Apr 2011

<sup>2</sup> The Future of Online and Mobile Payment by Business Insight, Jun 2011

<sup>3</sup> World Payments Report 2010 by Capgemini, RBS & EFMA

<sup>4</sup> Global Payments 2011: Winning After The Storm by Boston Consulting Group, Feb 2011

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