



# PAYMENTS PLUS



# THE BOUNCE BACK

The coronavirus pandemic continues to play out around the world, with devastating effects on public health and national economies. Hundreds of thousands of people have been killed by this potent disease and every major country has reported record declines in gross domestic product. And while COVID-19 appears to be contained in some regions, the transmission rate is accelerating in others.

These developments have directly impacted the global payments industry, with profound consequences for every company in the ecosystem — merchants, processors, networks, issuers, and many others. Yet despite these challenges, as we prepared this issue of Payments Plus, we saw a number of positive developments.

In most markets, payments volumes have rebounded from their steep declines and are now bouncing back, supported by government stimulus and a general re-opening of economies. Payments trends that might have taken three or more years — the migration from cash to card, adoption of contactless payments, the shift to digital commerce — have been achieved in three months. We discuss some of these developments, as well as our ongoing weekly survey of consumer sentiment, in this issue.

The crisis has created both opportunities and headwinds for our clients. We are working with issuers to strengthen their customer propositions, merchants to improve their payment organizations, and payments providers to enhance their commercial effectiveness. Areas of focus span point-of-sale financing, fraud management, innovative loyalty and pricing approaches, seamless commerce, and payments integration, among others. The work we profile is drawn from the firm's engagements in different regions and shows how our global intellectual capital and capabilities can drive impact for clients.

We hope you find our perspectives useful and, as always, we welcome your feedback.

Best wishes,

A handwritten signature in cursive script that reads "Pablo Haberer".

Pablo Haberer, Partner

PAYMENTS PLUS / MARKET DEVELOPMENTS

# PAYMENTS OPERATING MODEL DESIGN

## +OPERATIONS +TARGET STATE ROADMAP

As merchants diversify and expand their businesses globally, they face increased demands on payments-related operational support.

Payments operations include all of the activities that are needed to enable payments, including chargebacks, billing, reporting, and settlement. And depending on the company, they can also include compliance, fraud and risk management, and payments-related financial services operations such as co-brand and private-label credit and debit cards.

For merchants that are growing their business globally or expanding because of new digital channels, each of the elements of payments operations needs to be understood, evaluated, and assessed for required changes. This is necessary to ensure the right customer experience as well as efficient and cost-effective operations. With new transaction use cases, new external partnerships, and new consumer relationships, there is an increasing need

for more effective management of payments operations tasks.

**Oliver Wyman** recently worked with a global merchant to design its target state for “future-proof” payments operations, along with a roadmap to get there. In addition to assessing the merchant’s existing payments operations, we benchmarked a variety of global merchants to evaluate its relative positioning of payments — organizationally, operationally, and developmentally.

We worked with the client to make design decisions and tradeoffs with regard to the span of control, global vs. regional models, economic management, and connective tissue to the rest of the company. The target state design of the payments organization and capabilities will enable the merchant to deliver at scale globally and, with regional or local considerations, where needed.

# **DIGITAL TRANSACTION ACCOUNT FRAUD**

## +DIGITAL RISK +FINTECHS

Increasingly, consumers have been drawn toward innovative digital transaction account offerings provided by both newer fintechs and traditional financial institutions. These offerings tap into a range of digital capabilities to deliver a superior customer experience through the entire lifecycle. Consumers can apply for and establish an account entirely online or through mobile devices. Day-to-day interactions like depositing or withdrawing funds, making payments, or performing transaction inquiries are also digitally enabled.

Fintechs and traditional institutions alike face additional risks related to money movement in a purely digital environment. Not having to be physically present to open or operate the account delivers immense convenience, but also enables bad actors to target the account

remotely and to attack at scale. Rapid expansion can mask growing fraudulent activity, and presents challenges to implementing appropriate controls without affecting growth.

**Oliver Wyman** recently worked with a leading North American financial institution that is developing a new digital checking account product. The institution had already experienced enormous success with other digital banking products (savings, loans, credit cards) and was keen to launch a product to complement these offerings.

We conducted a detailed fraud risk review across the entire customer lifecycle, and identified appropriate controls to implement, particularly where the risk was significantly higher relative to the institution's existing offerings.

# DRIVING COMMERCIAL EFFECTIVENESS

## +PRICING STRATEGY +SALES ENABLEMENT

Across the globe, software and integrated payments providers are gaining in prominence, often growing significantly faster than more established merchant acquirers. With strong vertical propositions, they are able to capture market shares in their respective industries and maintain strong margins. And many such providers also benefit from greater client stickiness than traditional payments companies, resulting in low attrition.

A number of these companies have emerged via consolidation and acquisitions — triggered by investor interest — and may lack a consolidated proposition offer and pricing strategy across their market and customer segments. In these cases, value is not fully captured and the sales force does not achieve its potential.

**Oliver Wyman** recently supported a market leader for integrated payments to enhance its commercial effectiveness. Our work included benchmarking its go-to-market propositions and identifying which product bundles are most relevant and how to present these for up-selling and cross-selling. We then designed a new pricing structure, harmonized practices across the company, and defined the approach for repricing campaigns targeted at “low-liers” (for example, clients paying less than their peers in the same vertical).

We partnered with the client to implement our recommendations, realizing a 15 percent in-year revenue increase. In addition, our work has helped upskill the sales and pricing teams, an essential component of the longer-term commercial transformation.

# PROCURING A BANK CHARTER

## +BUSINESS PLANNING +REGULATORY APPROVALS

Becoming a bank can be a lengthy and arduous process. For companies making the transition, there are one-time costs associated with readying the application as well as planning, designing, and implementing the processes required for approval. There are also recurring costs in the form of capital requirements and maintaining elevated compliance protocols. And there are governance changes as well, since distinct leadership for the banking entity is required, including an independent board of directors.

Despite these barriers, there has been a recent surge of interest in bank charters from non-chartered entities in financial services. There are many reasons for this. Acquirers have pursued bank charters as a stable source of funding for nascent small business lending programs that use transaction data to improve underwriting. Challenger banks, meanwhile, have sought to reduce their dependence on

white-label banks and avoid the associated intermediary fees. Ultimately, there is a tradeoff between increased compliance costs and greater autonomy.

**Oliver Wyman** is helping a number of financial services companies — both payments providers and other non-chartered financial firms — work through the complex tradeoffs involved in deciding whether to pursue a charter and, if so, evaluate the mechanics of preparing the application and support planning for new opportunities enabled by the charter.

There are two ways to gain a bank charter: build or buy. Both paths have been pursued this year, and the “right” path is unique to each entity and its goals, based on timeframe, cost, and ultimate business use case. There is often tremendous value in the evaluation process as we uncover different approaches to achieve the same goal.

# LOYALTY (R)EVOLUTION

## +EUROPEAN PAYMENTS +CREDIT CARDS

Merchant-branded credit cards are commonplace, allowing merchants to extend their brands and customer bases. Before 2015, designing a product was simple — it was all about points. Interchange regulation in Europe changed that, with traditional rewards card economics no longer viable. In today's European market, co-branded credit cards need to drive value both for the cardholder and the merchant, and create competitive advantage for both.

Merchants have many assets at their disposal — brand, customer base, loyalty programs, data, and physical and digital footprint, among others. But many struggle to translate this into a compelling credit offering, often out-competed by cashback cards offered by traditional issuers. Yet for those that get this right, the business benefits can be significant.

**Oliver Wyman** has supported multiple clients looking to meet this challenge. The starting point is a deep understanding of the market — both domestically and internationally — and of the economics of the card and the merchant. For clients looking to completely redesign their proposition, we can partner with our sister company, **Lippincott**.

We use a customer-first, design-aware approach to identify unmet financial needs. To drive competitive advantage, we focus on gaps where merchants have a greater right to win, designing both standalone propositions and bolt-on features. In parallel, we work hand-in-hand with merchants to unlock and fully maximize their assets. The result: compelling, financially viable propositions that drive strong customer engagement.

# THE BOUNCE BACK

The US payments market is quickly bouncing back from the depths of the COVID-19 downturn. As states and businesses re-open, consumers are resuming their overall spending profiles, in some cases supported by stimulus payments.

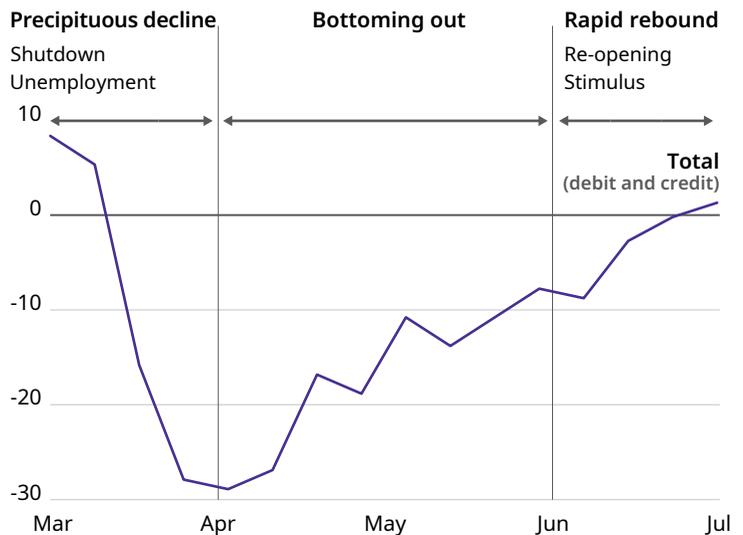
However, the recovery is uneven and there's considerable uncertainty in the future outlook, given the recent uptick coronavirus cases and associated slowing of business activity.

## Oliver Wyman's COVID-19 experience

Our payments team has engaged in discussions with a range of companies across the payments ecosystem — including issuers, networks, acquirers, merchants, and investors — on the impact of COVID-19. In addition, we interviewed a broad sample of 55 financial institutions to determine the impact of the pandemic on their consumer banking franchises (among other topics).

### US card volume growth

Percentage change year over year, 2020 versus 2019



Source: Oliver Wyman analysis

## Secular shift to digital

The pandemic accelerated the shift to card-not-present (CNP) transactions. Although the difference in growth rates between CNP and card-present transactions is narrowing as more states and businesses re-open, the changes in consumer behavior and payments preferences are likely to persist.

### CNP merchants are experiencing higher growth<sup>1</sup>

Year over year increase in Amazon traffic, March 1 – April 30

**+17.1%** to 84 million unique visits

Netflix new subscribers (millions) First quarter



### Cash usage is declining in favor of digital payment types<sup>2</sup>

**+2%** increase in card usage in one month during the pandemic versus in five months prior to the pandemic

Percentage of Square merchants that were cashless (2020)



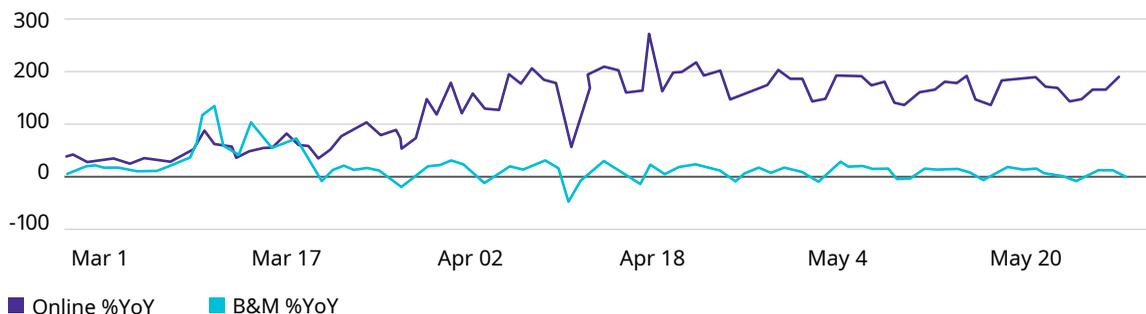
Percentage of card usage in low ticket (\$10-20) categories



### Digital adoption across traditional CP categories is increasing<sup>3</sup>

Year over year change in daily spending (online versus brick and mortar)

#### Groceries



Source: 1. New York Times, Netflix public filings, 2. Square payments data, 3. Reprinted by permission. Copyright © 2020 Bank of America Corporation ("BAC"). The use of the above in no way implies that BAC or any of its affiliates endorses the views or interpretation or the use of such information or acts as any endorsement of the use of such information. The information is provided "as is" and none of BAC or any of its affiliates warrants the accuracy or completeness of the information.

# TRACKING CONSUMER SENTIMENT

Oliver Wyman's COVID-19 Shopping Outlook Survey (SOS) is a weekly measure of consumer shopping sentiment, financial confidence, and attitudes on the direct impact of the pandemic across the United States, Brazil, and Mexico. The Shopping Confidence Index (SCI) tracks consumer shopping attitudes based on shopping plans and financial confidence.

We observe strong parallels in consumer behavior across these countries. Two effects, in particular, are noteworthy and have the potential to reduce overall consumer spending:

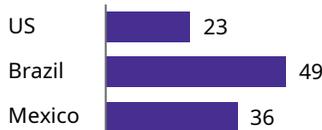
**Uncertainty in income.** Between 20 percent and 50 percent are worried about their job or income level.

**Increase in savings.** There has been a pronounced increase in desired savings behavior after the pandemic, particularly in Brazil and Mexico.

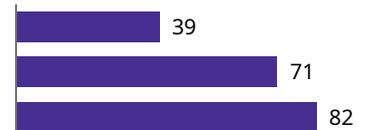
## Insights

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.

### Percentage of people who are worried about job/level of income



### Percentage of people who plan to save more after the pandemic



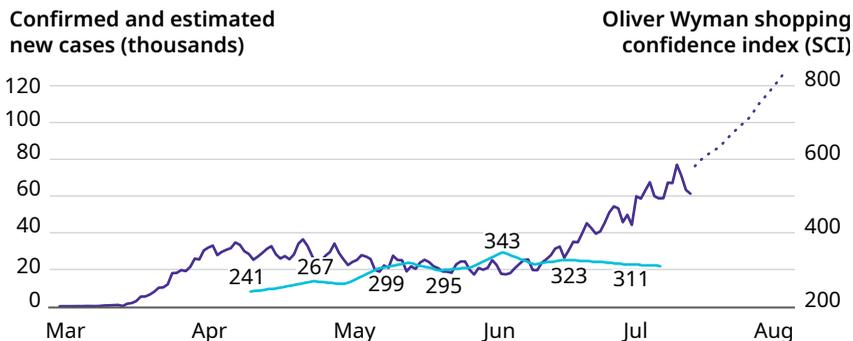
Source: Oliver Wyman COVID-19 Shopping Outlook Survey, June 8 (US), June 1 (Brazil and Mexico)

## COVID-19: Confirmed and estimated new cases

July 19, linear scale

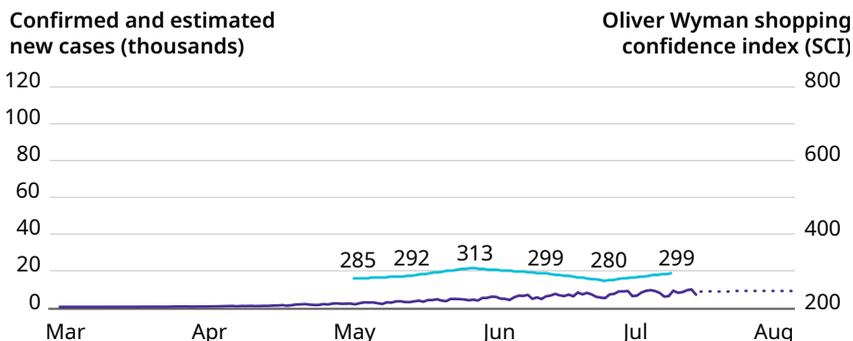
### United States

After a peak in June, shopping confidence has steadily decreased, as new cases have risen and states have re-implemented restrictions on some businesses.



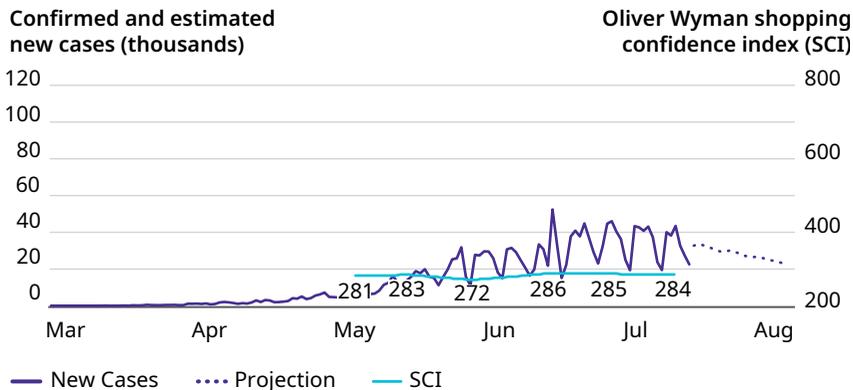
### Mexico

The number of reported COVID-19 cases is lower compared to the US and Brazil. Despite a rise in cases over the past month, the SCI has not materially changed.



### Brazil

The SCI has remained steady, but is lower than in the US and Mexico. New cases may have peaked, and confidence should improve as a result.

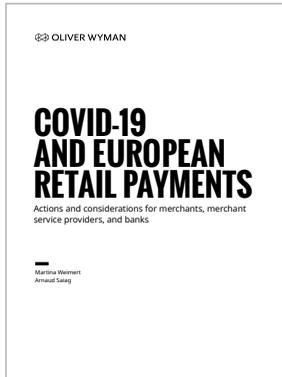


— New Cases    ··· Projection    — SCI

# COVID-19 REPORTS

Oliver Wyman is supporting our clients' response to COVID-19 by offering perspectives on topical themes and by deploying a fully integrated “analytical stack” connecting COVID-19 scenarios to economic and business impacts.

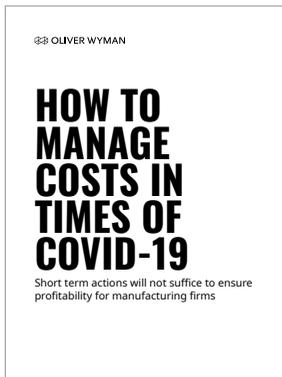
The report images are hyperlinked. Please click to view or download the document.



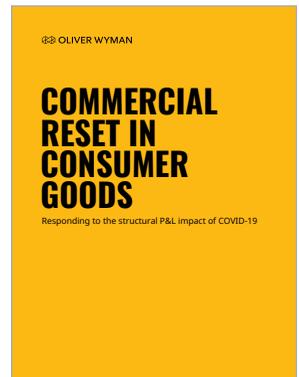
COVID-19 and European Retail Payments



After the Storm: Joint report with Morgan Stanley on COVID-19's impact on global wealth management



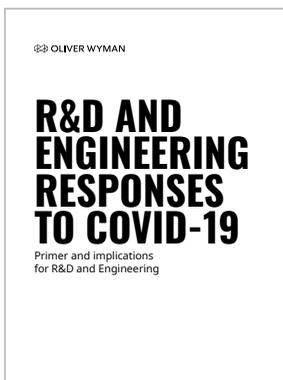
How To Manage Costs In Times Of COVID-19



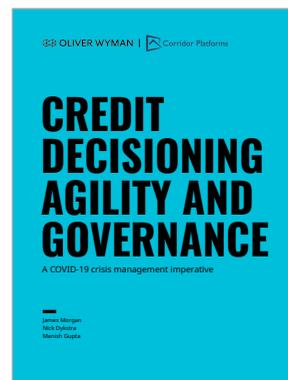
Commercial Reset In Consumer Goods



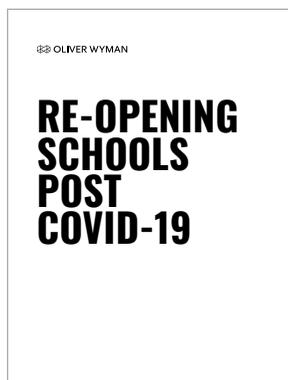
Reinventing The Bank Branch Post-COVID-19



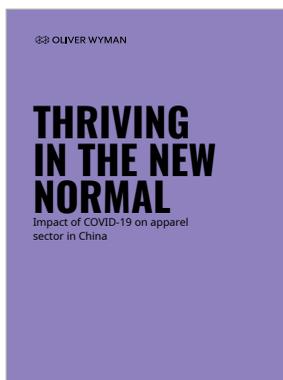
R&D And Engineering Responses To COVID-19



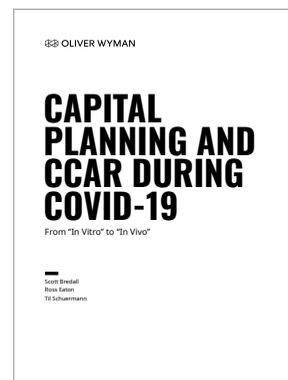
Credit Decisioning Agility And Governance



Re-Opening Schools Post COVID-19



Thriving In The New Normal



Capital Planning And CCAR During COVID-19

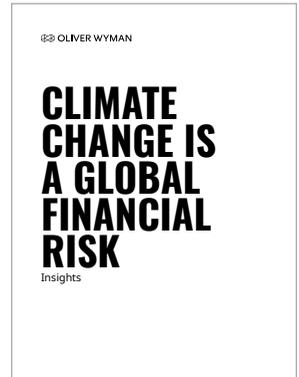
# OTHER REPORTS

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.

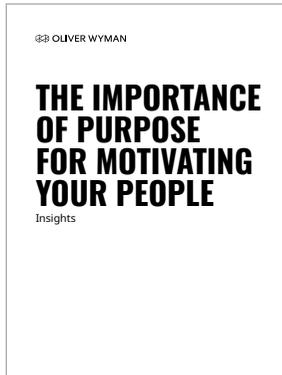
The report images are hyperlinked. Please click to view or download the document.



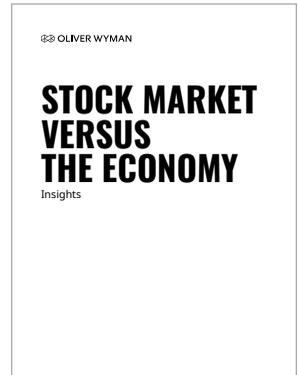
[Safeguarding Critical Functions Of The Financial System](#)



[Climate Change Is A Global Financial Risk](#)



[The Importance Of Purpose For Motivating Your People](#)



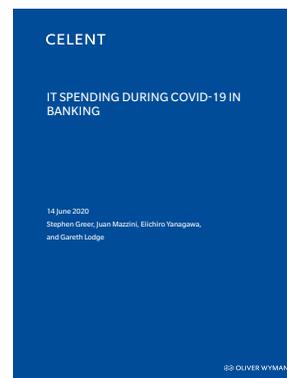
[Stock Market Versus The Economy](#)

# CELENT

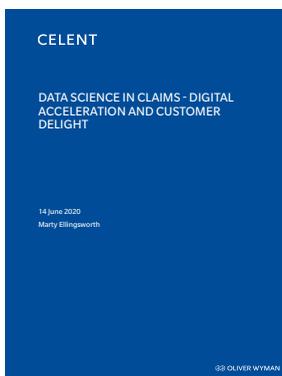
Celent, a division of Oliver Wyman, is the leading subscription research and advisory firm focused on financial services technology.



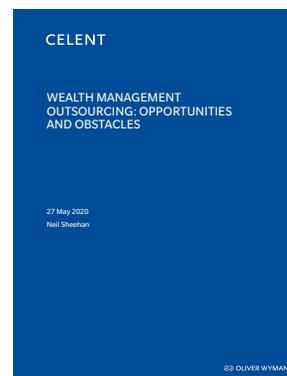
The Payments Industry:  
Managing Through And  
Beyond The Pandemic



IT Spending During  
COVID-19 In Banking



Data Science In Claims  
— Digital Acceleration  
And Customer Delight



Wealth Management  
Outsourcing: Opportunities  
And Obstacles

# EVENTS



**Money 20/20** is the largest industry event focused on the payments, banking, and fintech sectors. Oliver Wyman will share perspectives at the conferences in Europe and the United States.

## Sept. 22-24 | **Amsterdam**

We will discuss the European Payments Initiative (EPI):

- Martina Weimert will moderate a panel discussion with four major European banks on EPI
- Tony Hayes will host a fireside chat with the head of payments infrastructure at the European Central Bank

## Oct. 25-28 | **Las Vegas**

We will moderate two important discussions:

- Tony Hayes will host a fireside chat with Clip's head of banking services
- Vivian Merker will moderate a Small Business Banking panel discussion with Bank of America, Fifth Third, and Zions

**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  
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