



TRANSACTION
INNOVATION
FORUM® 2023

A Big picture

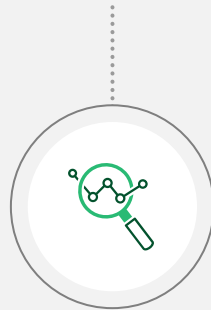
Key trend in the wholesale payment and transaction banking market

TOKYO: NOVEMBER 20, 2023

Intro: Your Speaker and objectives for today



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Short introduction to key findings from
BCG's Global Payments Report 2023



Overview about transaction banking
(benefits, products, key trends)



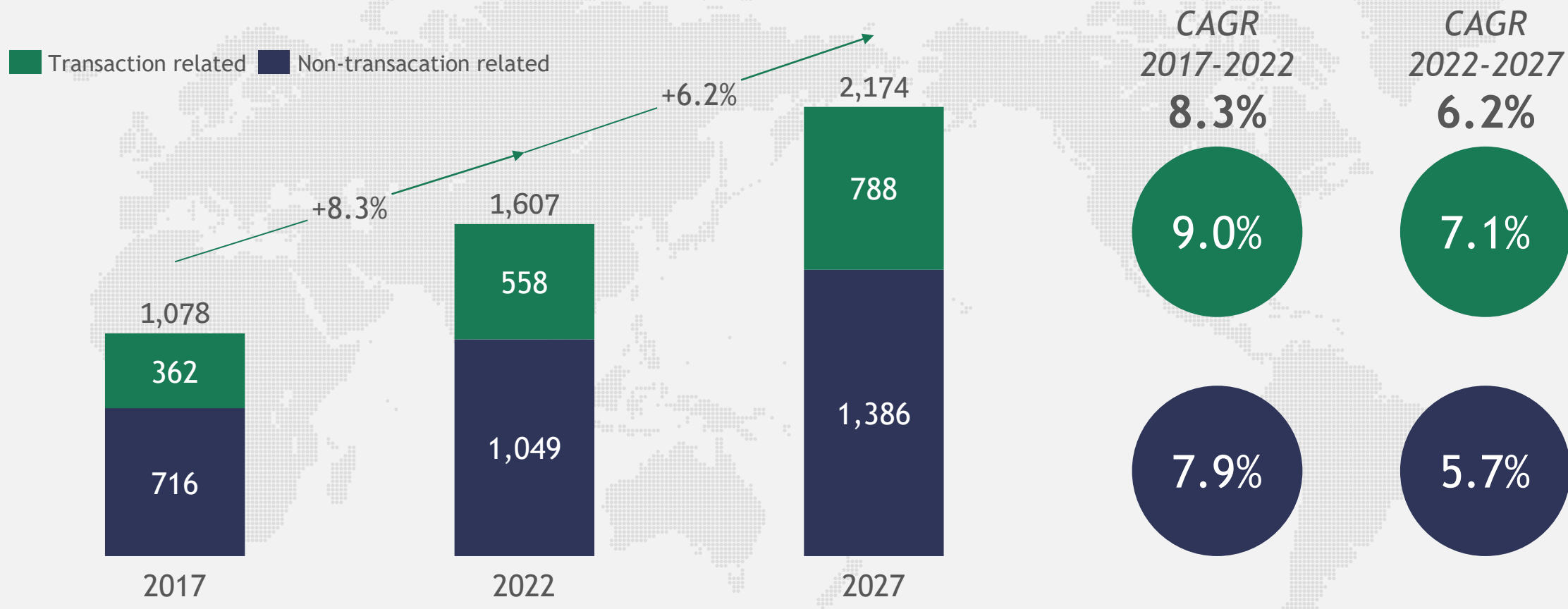
Growth drivers of the market



Overview Payments Revenue Pool

Global payments revenues reached ~\$1.6 Trillion in 2022 | Growth slowing by ~2pp to reach ~\$2.2 Trillion by 2027

Revenue, \$B



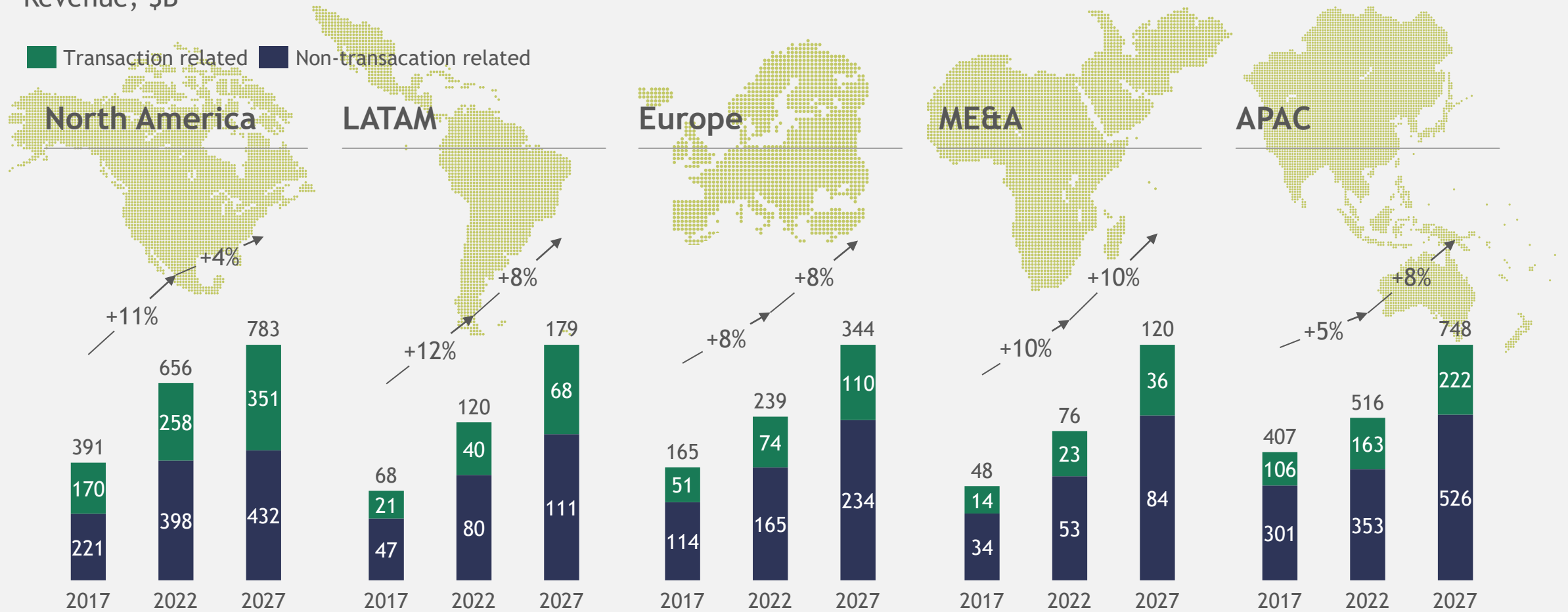
Source: BCG Global Payments Model 2023.

Note: BCG's Global Payments Model 2023 does not include closed-loop intra-wallet transactions, cash withdrawals from ATMs, trade finance revenues, and mobile money transactions. All forecasting is done at a constant foreign exchange rate. Transaction-related revenues include revenues from transactions made with cards and noncard payment instruments. Non-transaction-related revenues include revenues from interest income related to deposits, overdrafts, and revolving credit cards, as well as fee income from card and current account maintenance, foreign exchange, and value-added services. Totals may not sum due to rounding.

Regional payments revenue fastest growing in MEA and LATAM as APAC and N. America approach parity in \$ market size

Revenue, \$B

Transaction related Non-transaction related



Source: BCG Global Payments Model 2023

Global trends | Six key takeaways



After a long time, the payments industry is facing a revenue slowdown

Growth likely to taper from 8.3% ('17-'22 CAGR) to 6.2% through to '27



Issuers must adopt new playbooks as the days of easy growth come to an end

Revenue CAGR to fall from 8% to 5.5% through to 2027 as macroeconomic uncertainty and high rates cool demand



M&A remains an important lever for tuck-in capabilities despite challenging environment

M&A shifting from megadeals to capability-led moves and partnerships



Infrastructure providers can—and must—shape the future of payments

Tech modernization, creating new “as a service” solutions and partnering with policy makers needed more than ever



Acquiring will soon be a \$100B market with broad disintermediation expected

Revenues expected to rise by a CAGR of 6.9% through to 2027

Focus of today



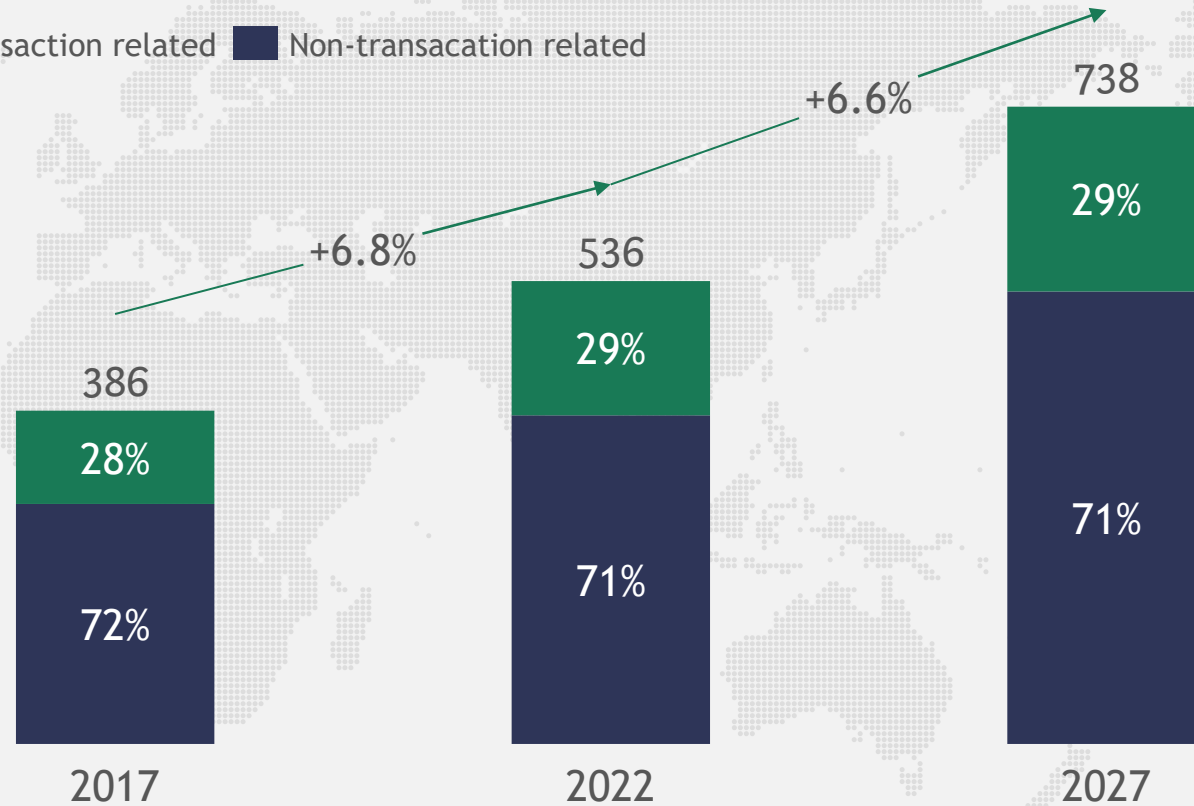
Wholesale transaction banks must transform to stay competitive

Incumbents are losing ground to non-banks due to years of underinvestment and have to deal with tech transformation

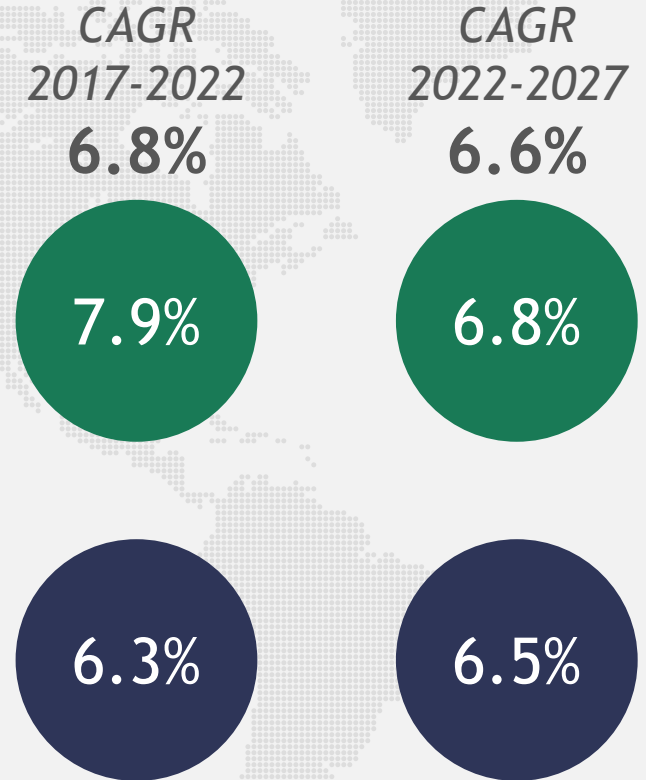
Wholesale transaction banking has a high proportion of non-transaction related revenues, and is growing steadily

Revenue, \$B

Transaction related Non-transaction related



Deep-Dive Wholesale



Source: BCG Global Payments Model 2023.

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Overview Transaction Banking

Transaction Banking provides banks with benefits in both core and adjacent business...



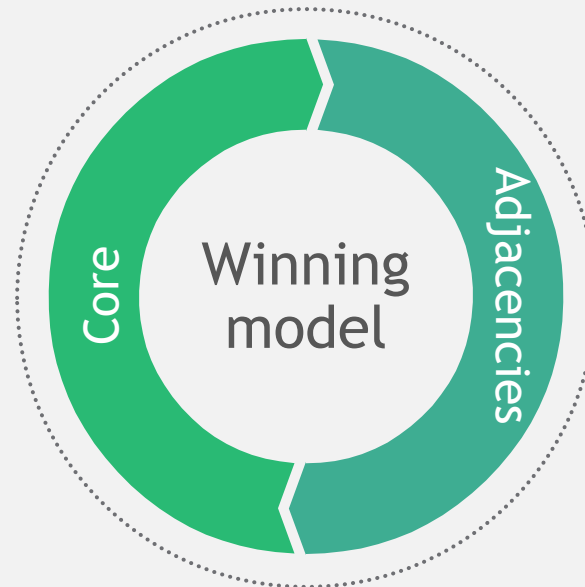
Benefit from the intrinsic value from the core activities

Anchor product to establish “sticky” customer relationship

Basis for cross-selling based on customer understanding

Stable, fee-based business with low capital consumption

Business with positive growth outlook (cash to non-cash conversion)



Explore adjacencies to capture future and additional growth

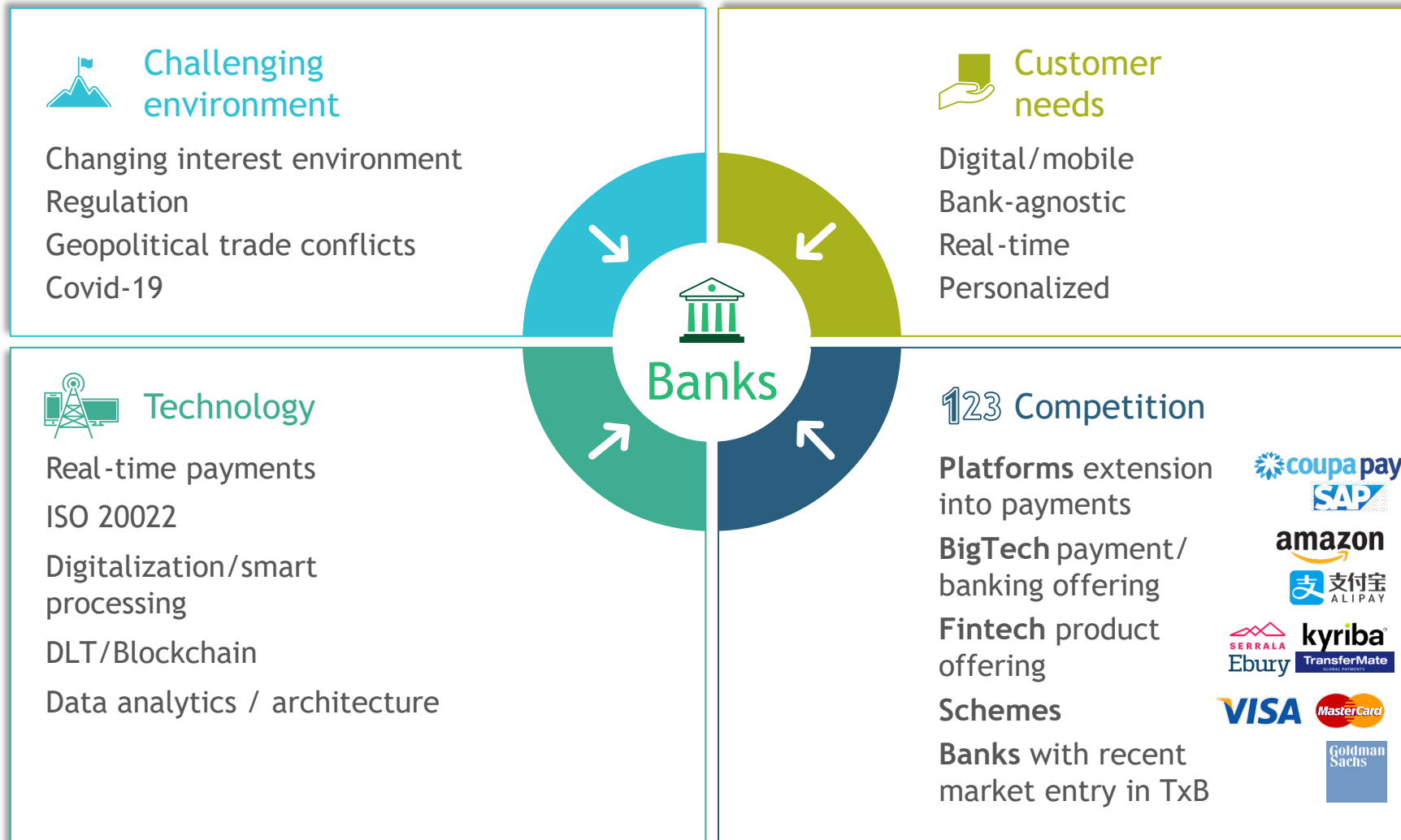
Opportunity to use/monetize rich transaction data

Basis to connect with platforms and ecosystems (open architecture/APIs)

Opportunity for partnerships with 3rd parties (e.g., FinTechs)

Complement product offering with banking/payment as a service

...but we observe challenges from dramatic changes in the market environment and increasing competition



Key question for banks:

How to compete in a very dynamic, competitive market with high investment needs?

Transaction banking covers a wide product range ...



Multi-national corporations

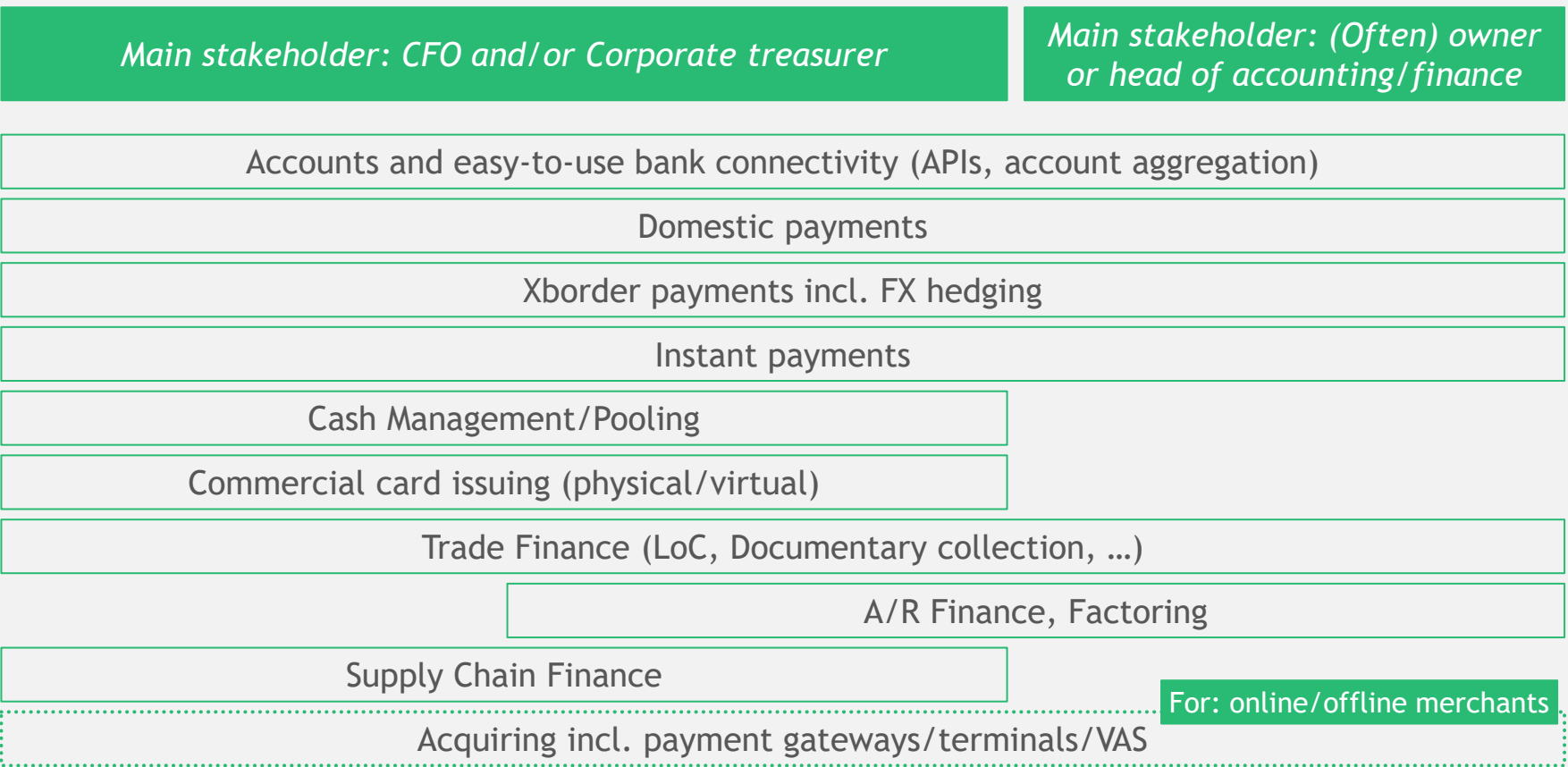


Large corporates



SMEs

Wide spectrum of product offering in wholesale transaction banking—different relevance for customer segments MNCs/large corporates and SMEs



For: online/offline merchants

Core Trends in Wholesale Payments and Trade Finance

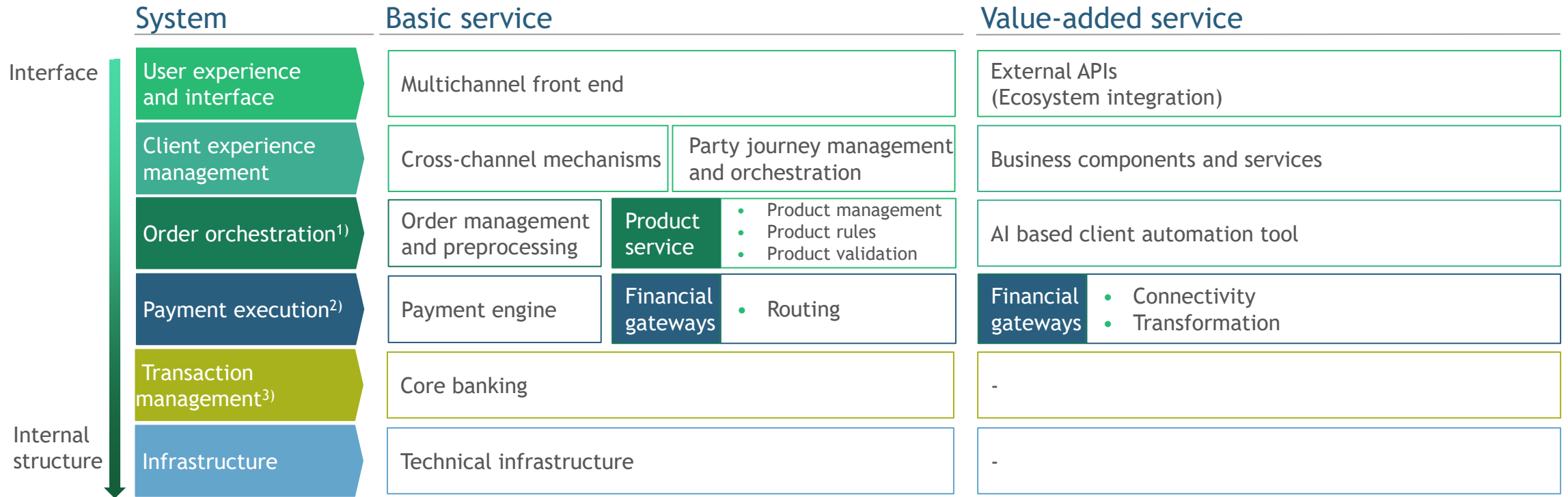
- 1 Market growth:** Payments continues to be a very large space (\$1.6 TN) with high historical growth (8.3% CAGR in 2017 to 2022), 6.2% projected annual growth until 2027. Of this: Wholesale Payments (\$0.5 TN), expected to grow 6.6%
- 2 Digital-only players** entering the market with differentiated CX and API-led e.g., Goldman, RBC
- 3 Non-Bank players** taking an increasingly bigger share of the market e.g., merchant acquiring (e.g., Stripe, Adyen), cross-border payments (e.g., Wise, Payoneer), treasury management (e.g., Kyriba, Serrala)
- 4 Embedding payments** and finance into software offerings (e.g., Toast) and platform ecosystems (e.g., Coupa, SAP, Tipalti) is already large and poised to take off. VAS growing strongly on top
- 5 Verticalization:** More and more vertical specific solutions emerging e.g., InstaMed + Story by JPMorgan (healthcare and real-estate respectively), increasing relevance of software players (ISV) in particular in Acquiring
- 6 Instant payments** (with different speed depending on region/market) growing in particular with respect to domestic payments but monetization still elusive; beginning to spill into cross border e.g., Swift Go
- 7 Massive investments in modernization of tech stack** including in RTP and ISO 20022, waiting the promise of enhanced data standards
- 8 DLT-based solutions** (e.g., CBDCs, stablecoins) promising but adoption still to take off
- 9 New trade and global payments corridors** amid ongoing geopolitical tensions, inflation, and supply chain diversification and relocalization
- 10 Trade finance pivots from paper-based documentary trade** towards high-growth (8-9% CAGR over next 10 years) open account trade and supply chain finance



Growth drivers of the market

A Modern Payments Architecture Consists of Six Core Elements

Simplified - high level view of the architecture



Underpinned by key design principles



Modularity

Loosely coupled architecture with multiple, modular components



Scalability

Cloud-native architecture able to cope with increase in payment volumes



Connectivity

Easy, API-based or host-to-host-based connectivity in third-party platforms and corporate systems



Data

Use of modern data models and tools in day-to-day operations and analytics



Engineering

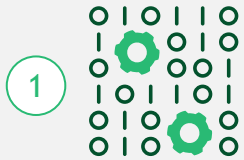
Deployment of modern engineering practices (agile, DevOps) to accelerate time to market for new, future functional requirements

1. Order management and product preprocessing 2. Payment engines and complex product systems 3. bank back-end system
Source: BCG analysis

Realization of Reliability, Transparency & Convenience will be the growth driver

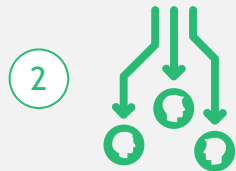
6 key trends are shaping the future of payments

Tech modernization



Tech modernization is intensifying, and GenAI is exploding onto the payment scene. Both could transform payments. In product development alone, GenAI-enabled software coding could boost productivity by 20%.

Open account instrument



Changing conditions in the global trade market have heightened demand for supply chain finance and working capital solutions. Open account instruments are becoming more popular, driven by the adoption of digital procurement platforms and ecosystems.

Support for Digital Currency



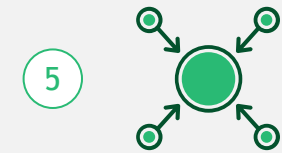
Digital currencies are moving from concept to reality, as more than 90% of central banks actively experiment with them as a complement to cash. At current rates of development, CBDC could be operational in some countries in every region in five to ten years.

Strengthening compliance



Regulatory authorities are increasing their scrutiny of payments, expanding the rule set, and stepping up enforcement. This will put the risk management and compliance practices of both established and nontraditional players to the test.

Capability-driven M&A



Although M&A continues to be an important lever, it is shifting from megadeals to capability-led moves, with a particular emphasis on alternative payments methods, integrated software vendors, value-added services, and loyalty.



6 Reliability, Transparency & Convenience

Clients seek reliability, transparency, and convenience. Competitors may offer a similar product set at comparable pricing, but business will go to the player that is quicker to act on client requests, better at providing real-time payments transparency and reconciliation, and more efficient in conducting payments investigations and exception handling.

Key Takeaway



Wholesale transaction banks must transform to stay competitive

- Transaction banking is a \$536 billion market today and will be an \$738 billion market by 2027, growing at an annual rate of 6.6%
- Incumbents are losing ground to non-banks due to years of underinvestment, putting a strategic customer gateway (anchor product, basis for cross-selling) at risk
- Incumbents can surmount the challenges they face. But they cannot do so with their current operating model
- Leaders must create a dedicated strategy for transaction banking, turbocharge trade and supply chain finance, and digitize services. Tech modernization is essential long-term

For more details, please see the
Global Payments Report 2023



URL:<https://www.bcg.com/ja-jp/publications/2023/bcg-global-payments-report-2023>



Questions



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