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The future of global payments

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While strong growth has returned to the payments industry, disruptive forces will continue to reshape the competitive landscape.

Robust growth has returned to the global payments industry. After a fallow period following the financial crisis of 2008, we forecast payments revenue will grow by 8 percent each year through 2018, at which point annual revenue will reach $2.3 trillion and account for 43 percent of all banking-services revenue, compared with 34 percent in 2009 (exhibit).[1]

The Asia–Pacific region, including China—which currently accounts for the largest share of payments revenues (40 percent)—will continue to be the engine of growth. It will comprise 56 percent of the global increase in revenues during the next five years, with China alone accounting for 40 percent of the global increase. However, Western Europe and developed Asia, where growth rates have been negative in recent years, will also rebound. Cross-border payments and trade finance will benefit in the coming years as well, driven by the strong recovery expected in trade flows (which have a projected compound annual growth rate of 8 percent from 2013 to 2018).

This return to strong growth is being fueled primarily by sustainable volume increases, rather than less sustainable improvements in revenue margins, for both liquidity revenues (net interest income on liquid assets and deposits[2]) and transactional revenues (fee and float income on payments transactions). Indeed, margin improvement will barely contribute to the $410 billion increase in liquidity revenues between 2013 and 2018. Transactional revenues will increase by $340 billion by 2018 due to higher transaction volumes, despite the dampening effects of more regulation and competition.

A number of trends indicate that payments-industry incumbents will need these strong winds at their back. The signs of health have not gone unnoticed by players outside the industry, from digital attackers to established giants, a number of which are making forays into the payments space and sparking transformation.[3] The emergence of digital technology is leading to faster and more convenient payments solutions and a subsequent rise in the expectations of both retail-consumer and commercial clients. We expect five disruptive forces to reshape the payments landscape over the next three to five years:

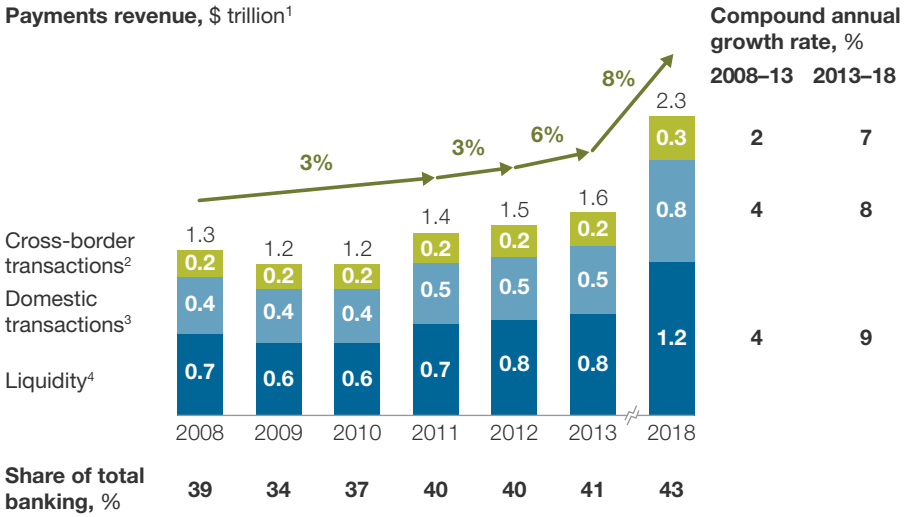
- The continuing digital transformation of merchant payments. The rapid adoption of smartphones and tablets is leading to a convergence of the offline and online world, further opening the value chain to innovative outsiders, large and small. While we project that merchant-payments revenues could double in size thanks to new digital solutions and access to untapped revenue pools, will incumbents be nimble and innovative enough to tap into a significant share of this growth?

[1] Forecasts are derived from McKinsey's Global Payments Map, which gathers and analyzes payments transactions and revenue data for more than 40 countries.

[2] "Liquid assets" refer to overdrafts and credit-card lines; "liquid deposits" refer to current accounts and transactional savings accounts (for instance, savings accounts from which transactions can be made without restrictions).

[3] Olivier Denecker, Sameer Gulati, and Marc Niederkorn, "The digital battle that banks must win," August 2014, mckinsey.com.

Exhibit Payments revenue is forecast to make a return to healthy growth.



[1]Figures may not sum, because of rounding.
[2]Trade finance and cross-border payment services.
[3]Fee and float income on domestic transactions.
[4]Net interest income on liquid assets (overdrafts and credit card lines) and deposits (current accounts and transactional savings accounts, ie, savings accounts from which transactions can be made without restrictions).

Source: McKinsey Global Payments Map

- The shift in power from data accumulation to data insights and applications. Banks historically have had the advantage of access to their customers' data and share a tradition of analytic innovation in areas such as fraud prevention and risk management. However, in recent years, innovative digital firms have taken a nontraditional approach to data—in fact, they have redefined data—combining new sources (such as social networks and location-specific data) to create fresh market insights and new products. The challenge for banks is to shift from their traditional heavy reliance on siloed, proprietary data to a more open approach that encompasses a broader view of customers.

- The advent of noncard real-time payments. A number of countries have already upgraded traditional payments infrastructure or announced plans to do so, setting the stage for innovations in products and services, particularly in the shape of noncard real-time payments. We believe real-time payments could accelerate the war on cash and create an additional revenue pool of $80 billion by 2018 through the replacement of cash transactions with electronic transactions. Unlocking the true potential of this market requires players to identify compelling customer use cases and workable economics.

- Rapid growth and digital transformation in cross-border transaction banking. Revenue from cross-border transaction banking is tied closely, of course, to trade flows, which have experienced moderate growth over the past three years. While we expect trade flows during the next five years to revert to their historical pattern of outpacing GDP growth—and for transaction banking revenue to rise correspondingly—customers are seeking simpler, more transparent cross-border commerce solutions. For banks, capturing that growth requires understanding shifting trade flows and an increasingly complex web of regulations.[4]

- Payments will be a cornerstone in the next phase of digital banking. McKinsey research forecasts that more than 50 percent of incremental revenue in almost all banking products in Western Europe will be digital by 2018.[5] The next challenge for payments providers is developing a deeper understanding of customer needs and behaviors—both in the banking and nonbanking facets of their lives.

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[4]For more, see "Global flows in a digital age," McKinsey Global Institute, April 2014, on mckinsey.com.

[5]Western Europe is defined as Austria, Belgium, Denmark, Finland, France, Germany, Ireland, the Netherlands, Norway, Sweden, Switzerland, and the United Kingdom. For more on this research, visit mckinseypanorama.com.