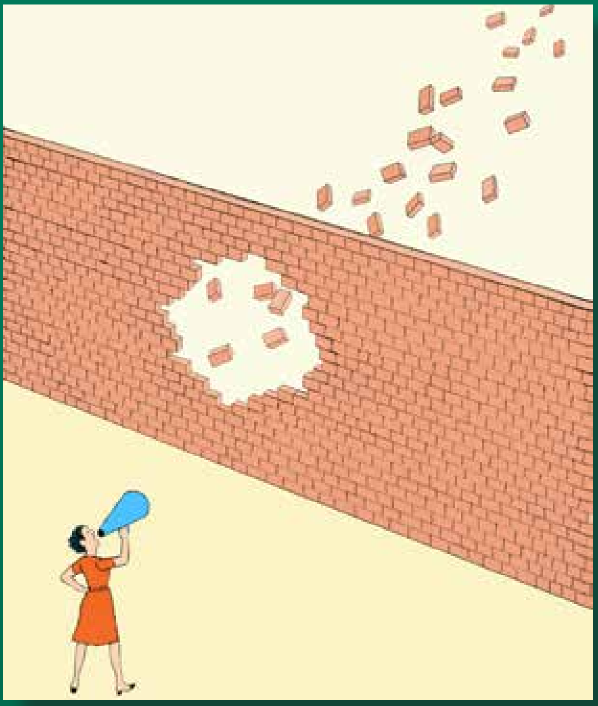
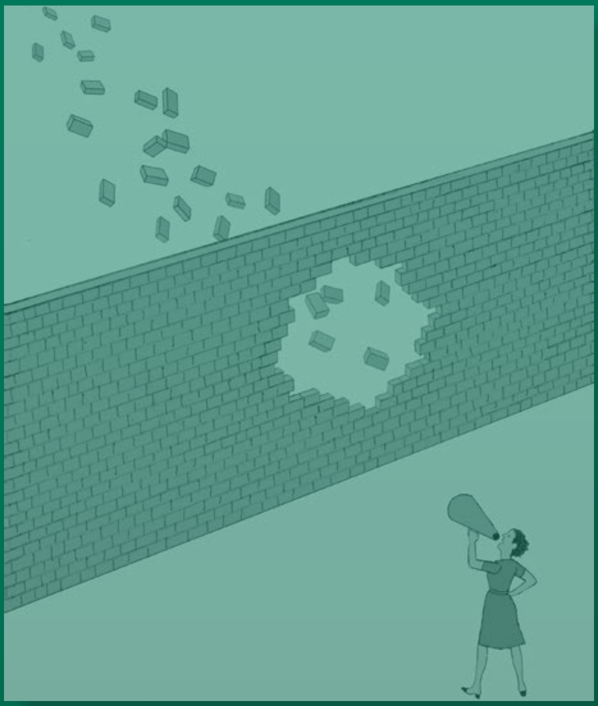
The Boston Consulting Group



Global Payments 2015

Listening to the Customer's Voice

The Boston Consulting Group (BCG) is a global management consulting firm and the world's leading advisor on business strategy. We partner with clients from the private, public, and not-for-profit sectors in all regions to identify their highest-value opportunities, address their most critical challenges, and transform their enterprises. Our customized approach combines deep insight into the dynamics of companies and markets with close collaboration at all levels of the client organization. This ensures that our clients achieve sustainable competitive advantage, build more capable organizations, and secure lasting results. Founded in 1963, BCG is a private company with 82 offices in 46 countries. For more information, please visit bcg.com.



SWIFT is a member-owned cooperative that provides the communications platform, products and services to connect more than 10,800 banking organizations, securities institutions and corporate customers in over 200 countries and territories. SWIFT enables its users to exchange automated, standardized financial information securely and reliably, thereby lowering costs, reducing operational risk and eliminating operational inefficiencies. SWIFT also brings the financial community together to work collaboratively to shape market practice, define standards and debate issues of mutual interest. For more information, please visit swift.com.

GLOBAL PAYMENTS 2015

LISTENING TO THE CUSTOMER'S VOICE

STEFAN DAB

MOHAMMED BADI

LAURENT DESMANGLES

GERO FREUDENSTEIN

ALENKA GREALISH

FEDERICO MUXI

PEDRO RAPALLO

OLIVIER SAMPIERI

YANN SÉNANT

KUBA ZIELINSKI

October 2015 | The Boston Consulting Group

CONTENTS

INTRODUCTION

THE PAYMENTS AND TRANSACTION-BANKING businesses are evolving at a dizzying pace. The advance of digital technology, the entry of nontraditional players with compelling value propositions, and changing preferences in the way consumers pay for goods and services in their everyday lives have considerably disrupted the industry landscape.

Which direction will consumer payment habits take in the future? How fast will people and businesses adopt the latest digital technology and leave traditional payment methods behind? How can banks not only handle the arrival of new digital players but also use their own vast infrastructure and customer knowledge to remain competitive in the shifting market climate? Will joining forces with nontraditional players, rather than treating them as adversaries, prove to be a more profitable path forward? These are among the most pressing questions of the moment.

One industry characteristic that has not changed is that payments and transaction-banking businesses remain critical elements of the banking industry and the global financial-services landscape. As a critical source of reliable revenues and a linchpin of customer relationships and loyalty, their importance will continue to grow. But competition will intensify. In order to stand out in a very crowded field, payments players must differentiate themselves digitally, refine their customer-centric strategies, and raise their execution skills. Above all, they must listen to the customer's voice and react accordingly.

In this thirteenth edition of The Boston Consulting Group's Global Payments report, we offer a comprehensive regional overview of the industry. We then discuss the findings of a recent BCG survey of nearly 5,500 consumers in four countries—France, Germany, the U.K., and the U.S.—that we conducted with three goals in mind: discovering why the adoption of digital payments has been relatively slow to date; identifying current consumer needs, preferences, and pain points in payments; and formulating the actions that banks can take to unlock the potential of consumer digital payments. Finally, we take a detailed look at the wholesale transaction-banking industry, specifically focusing on how banks can beef up the treasury and trade services that they provide to their clients. In preparing this report, we have for the fourth consecutive year collaborated with SWIFT, the global provider of secure financial-messaging services.

This year also marks the second edition of BCG's Global Payments Model Interactive, available on bcgperspectives.com, which explores how regions and segments of the payments market will shift from year-end 2014 through 2024. This feature provides extensive global detail, including interactive charts on the volume and value of non-cash transactions as well as on revenues.

In the Global Payments model, payments revenues include direct and indirect revenues generated by noncash payment services (excluding interbank transfers). They are the sum of the following:

- *Account revenues:* spread income on current account balances (also known as checking or demand-deposit accounts) and account maintenance fees

- *Transaction revenues:* transaction-specific revenues on cards (interchange fees, merchant acquiring fees, and currency conversion fees for cross-border card transactions); fees per transaction on a percentage or fixed basis for noncard payment types; fees for overdrafts and nonsufficient funds; and monthly or annual card membership fees

- *Credit card spread (net interest income) and penalty fees*

Retail payments are transactions initiated by consumers, and wholesale payments are transactions initiated by businesses or governments.

As always, our aim in *Global Payments 2015: Listening to the Customer's Voice* is to provide institutions that are active in the payments and transaction-banking businesses with a clear understanding of the fundamental changes shaping the industry, as well as to offer recommendations on which specific actions should be taken by various types of players in order to achieve or maintain market-leading positions. Today more than ever, no institution can afford to stand pat.

GLOBAL OVERVIEW

DISRUPTION AND OPPORTUNITY

PAYMENTS AND TRANSACTION-BANKING BUSINESSES will face both significant disruption and immense opportunity over the next decade, with some $900 billion in industry revenue growth up for grabs through 2024. The disruption will have many sources, among them regulatory measures that adversely affect price realization and the customer experience, as well as new market entrants that are gaining traction by leveraging advanced technology to solve pain points and offer creative value propositions. The principal opportunities lie in continuing to capture the migration from cash to electronic payments, adapting to the new digital world, delivering innovative value-adding services, and effectively serving the unbanked and underbanked.

A Dynamic Arena

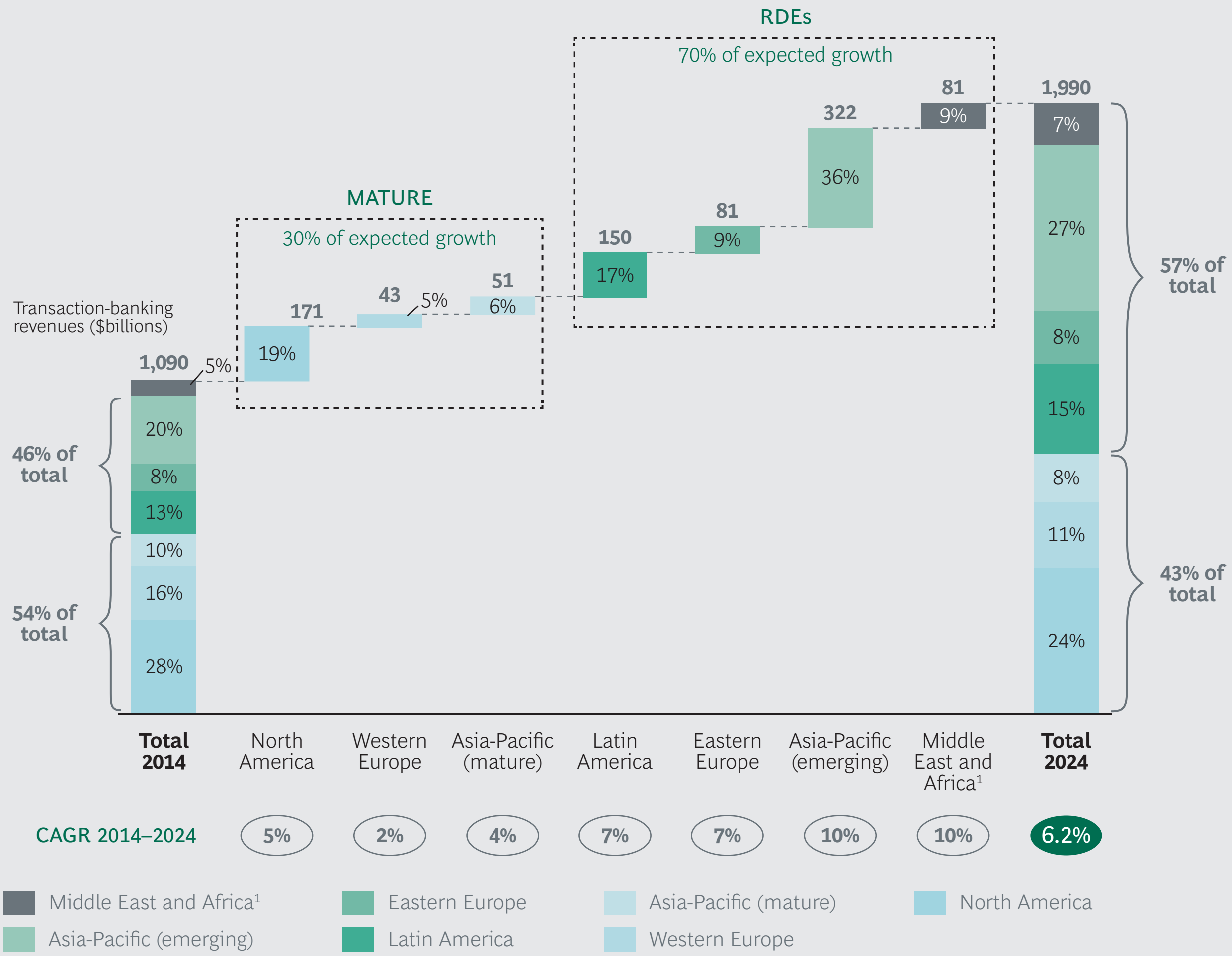
Transaction banking remains a dynamic arena on a global level, as evidenced by the significant amount of venture capital—roughly $76 billion—that has gone into payments-related businesses since 2010. Moreover, large technology companies are investing heavily in the payments space, ushering in a new world of digital payments as well as spawning a herd of new competitors (and potential partners) for traditional players. Among the primary drivers of change will be digital payment solutions that can be used across different point-of-sale (POS) channels (such as in-store, browser, and in-app), new payment rails that deliver so-called instant payments, and perhaps cryptocurrencies and blockchain technology.

Such developments will dramatically change how consumers and businesses select payment-related services (and credit products), how they transact, and how they engage with their providers.

Looking ahead, it's clear that the nimblest stakeholders—those that are quickest to adapt their business and operating models to the shifting landscape—will seize the bulk of the $900 billion revenue-growth prize to be captured over the next decade. Also critical to winning will be a customer-centric strategy, one that truly grasps customer needs, expectations, and pain points, and addresses these issues efficiently and effectively.

Revenues. In 2014, global transaction-banking revenues were nearly $1.1 trillion, or about 27 percent of total global-banking revenues. (See Exhibit 1.) By 2024, they are projected to reach nearly $2 trillion, with growth driven by a combination of account revenues (40 percent), transaction revenues (34 percent), and non-transaction card revenues (26 percent; these include monthly or annual fees, credit-card net interest income, and other types of fees). Transaction revenues are being propelled by rising transaction values and

EXHIBIT 1 | RDEs Will Maintain the Lead in Transaction-Banking Revenue Growth



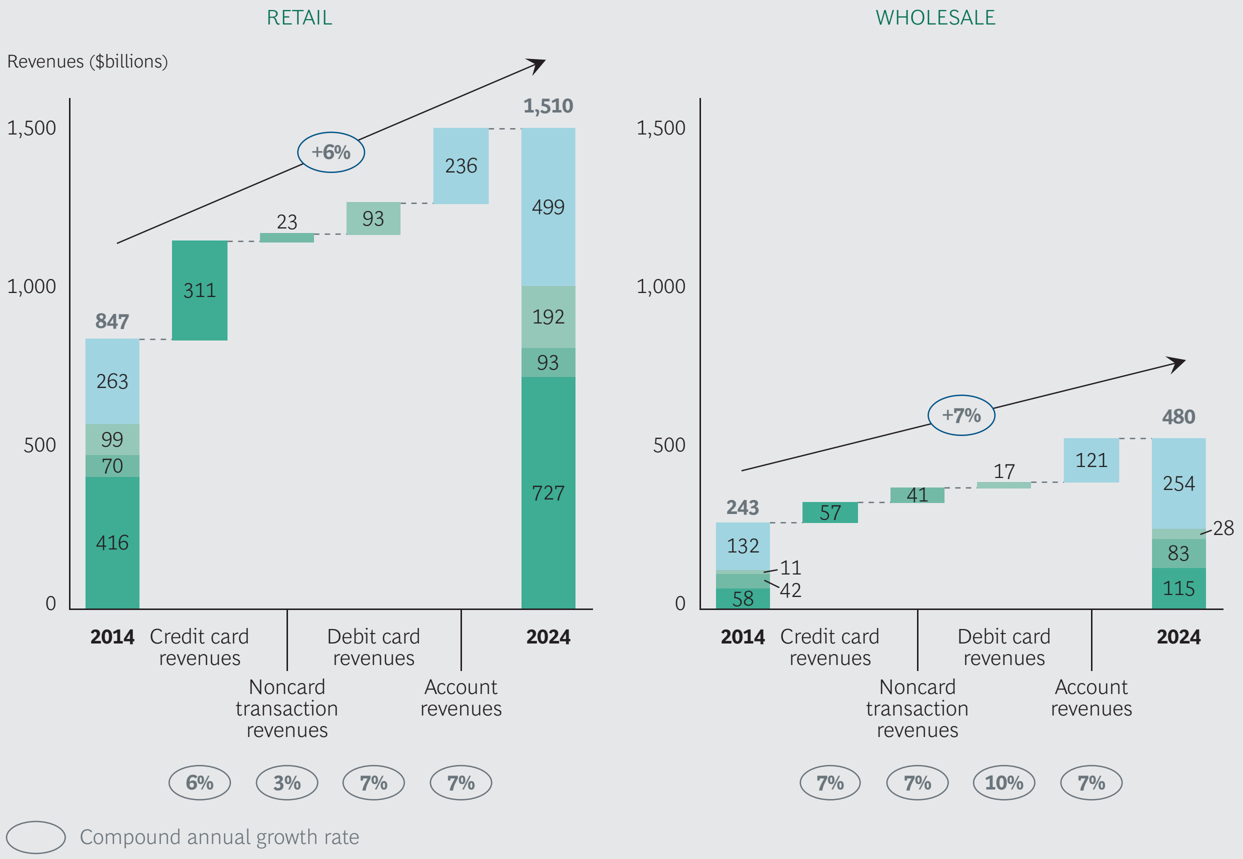
Source: BCG Global Payments Model, 2015.
[1]Middle East and Africa includes rest-of-world revenue pools; totals may reflect rounding.

volumes—fueled by macroeconomic growth, migration from cash to e-payments, and broader financial inclusion—which in turn are helping to offset falling revenues per transaction in many regions. Moreover, all variables in the account-revenue equation—the number of accounts, account balances, and spread income—are increasing, driven by positive macroeconomic and interest-rate trends.

Varying Growth Patterns. It's no surprise that rapidly developing economies (RDEs, also commonly referred to as emerging markets), most of which are moving toward higher rates of financial inclusion and greater migration from cash to e-payments, are enjoying stronger growth in all metrics than are mature markets. They will continue to do so. Compared with a year ago, however, retail (consumer-initiated) payments revenue growth in RDEs has been slowed by softening macroeconomic drivers such as GDP and per capita income.

Retail and Wholesale Payments Differences. Although retail payments accounted for a small fraction of global transaction values in 2014 (11 percent), they generated 78 percent of total payments revenues and will account for a projected 73 percent of total revenue growth through 2024. The revenue mix will shift slightly toward account revenues. Wholesale (business- and government-initiated) payments are projected to post stronger annual revenue growth, at a CAGR of 7 percent compared with 6 percent for retail payments, with account revenues generating just over half of that growth. (See Exhibit 2.) Higher wholesale growth is being driven by stronger credit-card and other transac-

EXHIBIT 2 | Retail Transactions Will Continue to Be the Dominant Revenue Generator



Sources: BCG Global Payments Model, 2015; BCG analysis.
Note: Account revenues consist of net interest income and maintenance fees on current accounts (DDAs). Card revenues include transaction-specific fees (interchange fees, merchant acquiring fees, and currency conversion fees for cross-border transactions) and monthly or annual card membership fees; and for debit cards, if applicable, fees on overdrafts and nonsufficient funds. Credit card revenues also include net interest income, penalty fees, and other service fees (e.g., cash withdrawal fees). Noncard transaction revenues include transaction-specific fees and, as applicable, fees for overdrafts and nonsufficient funds. Totals may reflect rounding.

tion-revenue expansion, owing to lighter price pressure than in retail.

Regional Retail Trends

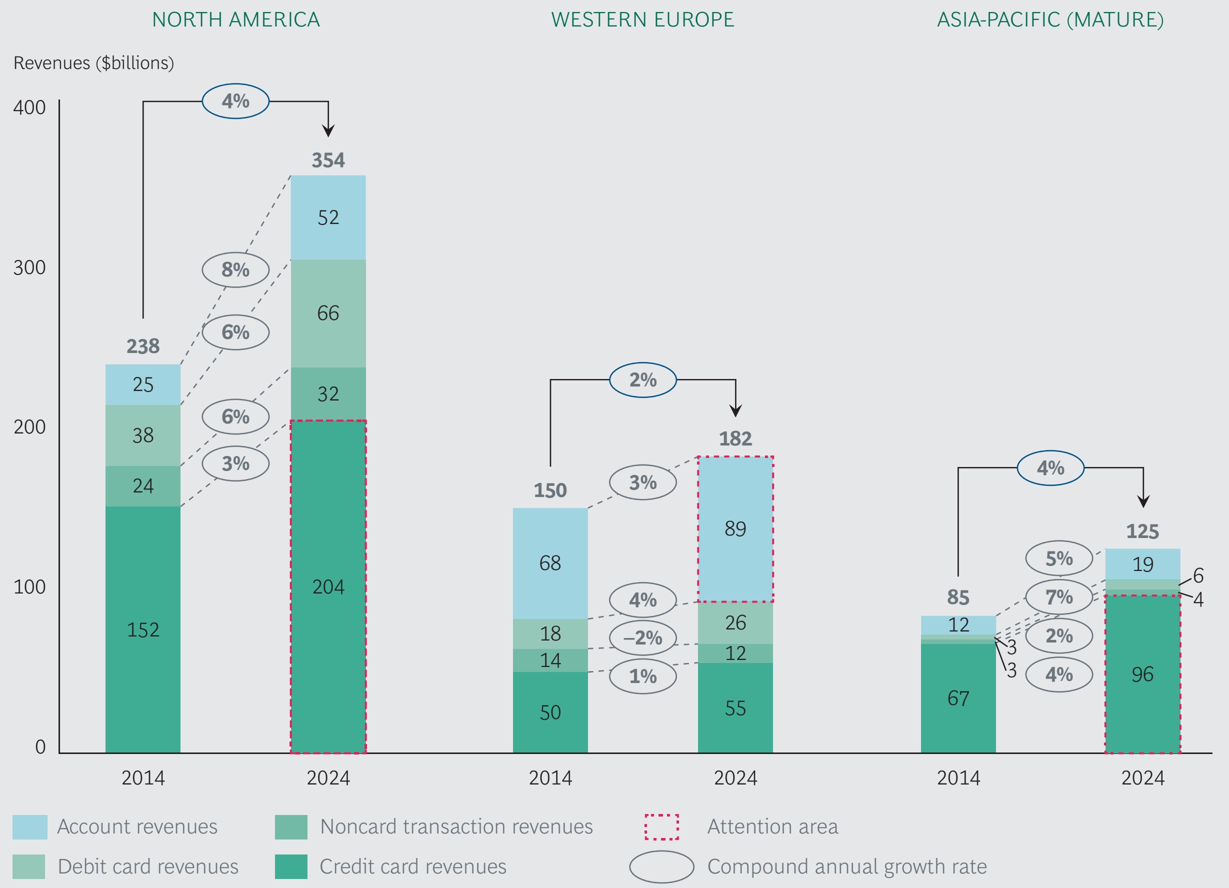
There are significant differences in retail payments trends across regions. The greatest diversity is found among mature markets, where revenue mixes and growth drivers differ considerably, although impediments to growth are similar. (See Exhibit 3.) Indeed, most mature markets are grappling with modest macroeconomic growth, regulatory pressure on prices, and persistent flat yield curves.

Nonetheless, some bright spots for revenue growth can be found in mature markets. In North America, for example, credit cards continue to be a highly attractive business and will be the key revenue battleground. In Western Europe, where card revenues have been sharply reduced by regulation, the keys to growth include rethinking daily-banking value propositions and improving price realization to raise account revenues. In mature Asia-Pacific markets, banks should focus on a current-account and credit-card strategy aimed at capturing the ongoing migration away from cash.

North America. North America remains the largest payments and transaction-banking market globally, generating $238 billion in total retail payment revenues in 2014 (28 percent of the worldwide total), with a projected CAGR of 4 percent through 2024.

Credit cards are the dominant revenue engine in the U.S., representing 60 percent of

EXHIBIT 3 | Retail Revenue Mixes and Growth Drivers Vary Widely in Mature Markets



Sources: BCG Global Payments Model, 2015; BCG analysis.
Note: Account revenues consist of net interest income and maintenance fees on current accounts (DDAs). Card revenues include transaction-specific fees (interchange fees, merchant acquiring fees, and currency conversion fees for cross-border transactions) and monthly or annual card membership fees; and for debit cards, if applicable, fees on overdrafts and nonsufficient funds. Credit card revenues also include net interest income, penalty fees, and other service fees (e.g., cash withdrawal fees). Noncard transaction revenues include transaction-specific fees and, as applicable, fees for overdrafts and nonsufficient funds. Totals may reflect rounding.

retail payment revenues in 2014. Moreover, credit cards generate the highest return on assets across U.S. retail financial products (close to 2.5 percent, with home-equity loans ranked second at 1.2 percent). Demand deposit account (DDA), debit card, and non-card transaction revenues accounted for the remaining 40 percent. Credit cards are also the lead revenue generator in Canada.

Looking ahead, credit-card revenues—now in a favorable point in the economic cycle, with net interest margins relatively strong and charge-offs low—will be driven by cyclical factors, systemic trends, and competitive shifts. The positive environment may turn negative, however, with a steepening yield curve that will push the cost of funds upward, weakening economic growth and increasing charge-offs.

Moreover, several systemic trends will put pressure on average interchange income. For example, merchants may campaign for lower interchange rates if fraud losses drop as a result of the migration to EMV, tokenization, and biometric authentication. Furthermore, m-wallets will drive a move from card-not-present to card-present transactions.

In addition, there will be continued power shifts across the value chain. Co-brand partners are already wielding more clout in their negotiations with issuers, increasing their revenue share and lowering the discount rate that they pay on their co-brand cards. Meanwhile, issuers continue to fuel an arms race in rewards, eroding net interchange. It is looking more likely that at least one bank will launch a three-party network, leveraging its issuing and merchant-acquiring businesses and changing the business model to generate a win for all stakeholders.

To overcome such challenges and capture a healthy share of the expected revenue growth, banks in North America need to pursue a multifaceted strategy. First, as top issuers push their own branded cards, achieving excellence in penetrating core DDA customers will be increasingly important. Banks need to leverage their extensive product and channel platforms and broaden their value propositions to consumers, going beyond traditional cross-selling activities and creating product bundles aimed at specific customer segments (such as aspiring homeowners). They also need to offer relevant products based on "trigger" events such as college graduation or the birth of a child.

Second, issuers need to increase the value-adding services that they bring to their co-brand partners. Doing so will require them to contribute to their partners' overall P&L—not just the card component—and will entail working with their partners on sophisticated marketing efforts to increase loyalty and enhance customer engagement.

Other obvious means of improving retail payment economics involve reducing costs and boosting overall efficiency. Cost reduction opportunities lie in slimming down the organizational structure and implementing lean operations, including optimizing both insourcing and outsourcing. BCG has found that organizational simplification can result in an 8 to 10 percent savings in total costs, and that improving procurement can reduce related costs by more than 20 percent, depending on the issuer's starting point and willingness to be aggressive.

Clearly, with $116 billion in revenue growth up for grabs over the next decade in North America, there will be numerous competitive battlegrounds. In the short run, one wave of disruption is being generated by mobile payments initiatives, including m-payments at the point of sale, m-commerce, and in-app purchases. Mobile payments—which are unlikely to grow to beyond 30 percent of U.S. retail transactions by 2020 (including card-on-file, POS, and in-app purchases)—will not rapidly replace plastic cards. After 2020, disruption will potentially come from the launch of instant payments solutions and perhaps blockchain technology.

Western Europe. Payments revenues are under structural pressure throughout Western Europe. Indeed, interchange regulation set to take effect in October 2015 will result in an estimated total revenue loss of €5 billion per year for card issuers. We are also seeing a significant reduction in interest margins on current accounts (owing to the continued low-interest-rate environment) with no immediate recovery on the horizon. At the same time, increasing e-commerce activity and the gradual elimination of cash from physical points of sale is fueling growth in payments volumes.

> Regulation remains a key theme in European payments.

Regulation remains a key theme in European payments, with governments hoping to stimulate further adoption of noncash payment instruments, remove barriers to competition for both banks and other players, and enhance security requirements for both mobile and online payments. Much of this regulation is centered around Payment Services Directive 2 (PSD 2), which aims to spur competition and innovation both through allowing access to customer accounts by third-party payment-service providers and through putting new security rules in place. PSD 2 is set to be submitted to the European Parliament later this year and incorporated into the regulatory framework over the course of 2016.

With the access-to-accounts rule introducing new competition from third-party providers and raising both costs and risks for incumbents, banks should investigate opportunities to strengthen their client relationships through superior interfaces, notably mobile ones, and to introduce value-added services, such as embedding account aggregation into their digital interfaces.

Aside from heightened competition on digital banking interfaces, we expect digital payment solutions at the point of sale to become a key battleground. Very few banks have managed to successfully launch their own digital-payment solutions, owing to delays in product development or an inability to bring a compelling value proposition to consumers and merchants. The fact that global tech giants such as Apple Pay and Android Pay see Europe as a highly attractive territory will force banks to develop an appropriate strategy. In particular, we expect that banks will cooperate more closely with global card networks to develop and promote credible alternatives to the offerings of digital giants. Such cooperation will require banks to support a higher level of standardization to ensure scale and wider adoption. As a consequence, banks will need to rethink how best to differentiate themselves.

> India stands out for its bold government-led initiatives to promote financial inclusion.

We're also witnessing greater interest in instant-payment solutions. Many countries—such as the Netherlands, Finland, and Italy—are either implementing or planning to develop a national instant-payment scheme. This trend will gain the most momentum in countries that have a proactive payments regulator, an outdated payments infrastructure, or a critical mass of local banks with real-time accounting systems. Yet despite agreement on a common definition of instant payments by the Euro Retail Payments Board, there has been no clear progress toward a pan-European instant-payment scheme. Although likely to become standard in the long run, the business case for instant payments remains questionable in the medium term. Banks will therefore need to carefully think through the prioritization of their payments investments.

Ultimately, we believe that Western European banks are still competitively well positioned because the accounts and payment services they offer enjoy higher levels of trust than those offered by nonbank players. Nonetheless, banks need to act now on three key levers:

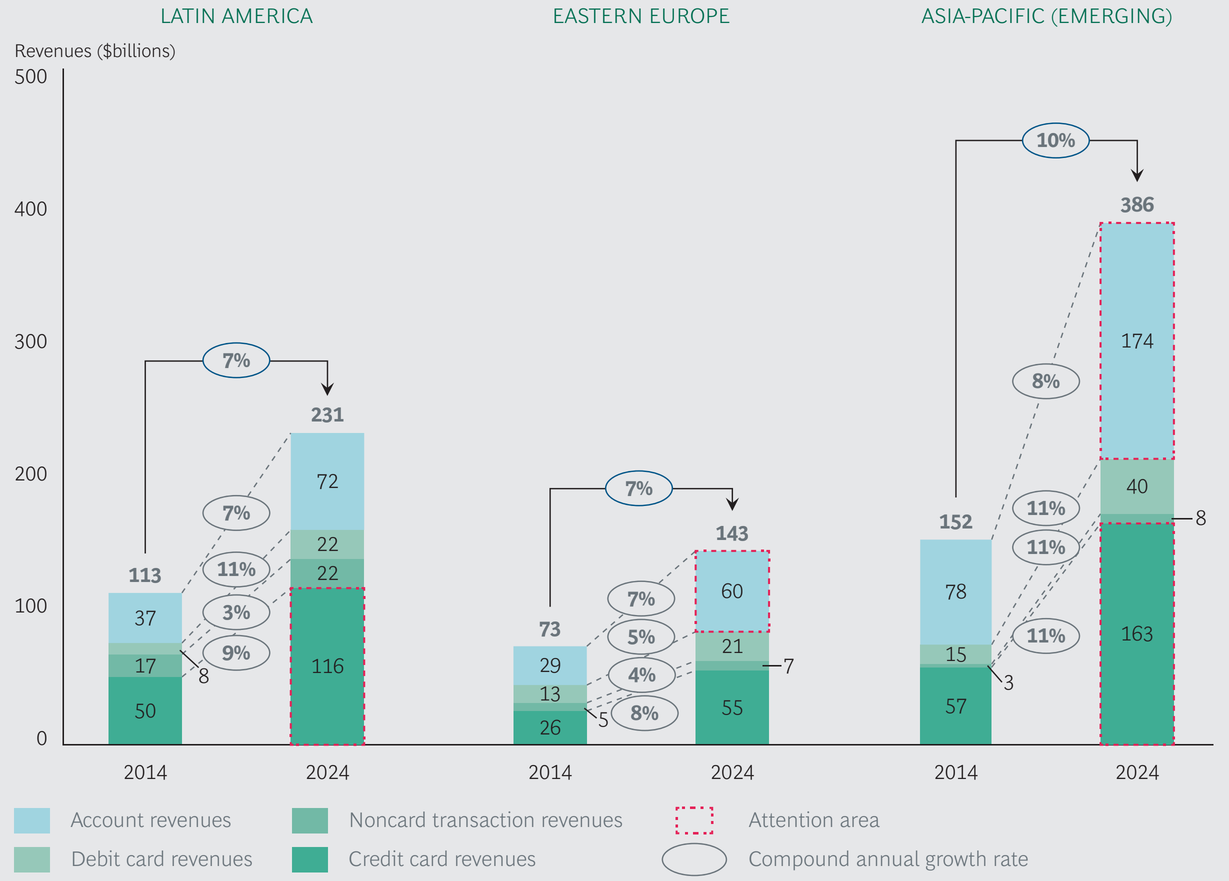
- Rethink daily-banking offerings and execute a fundamental review of pricing structures, considering the financial needs and willingness to pay of different customer segments.
- Beef up digital-banking interfaces in order to be best-in-class relative to local peers.
- Decide on a clearer path for future digital-payments initiatives, such as developing proprietary m-wallets, joining with peers to develop local wallets, or partnering with global card networks or tech giants.

RDEs. Payments-related businesses in RDEs continue to benefit from positive macroeconomic and socioeconomic trends. While many countries have experienced a slowdown in GDP growth, a steady rise in financial inclusion coupled with the push for migration away from cash will continue to generate above-average growth in both payment values and payments revenues. (See Exhibit 4.) Leading the growth will be the emerging markets of Asia-Pacific and Latin America, followed by Eastern Europe.

While the pace of growth will vary across regions, the overall digital future is bright. Ongoing government support, steady investment in payments-related innovation, and increases in smartphone adoption will be key drivers. Both incumbents and new digital-payments players, as well as social media and e-commerce giants, will continue to reshape the payments landscape and ensure the success of new digital platforms.

India. Among emerging markets, India stands out for its bold government-led initiatives to promote financial inclusion and digital innovation, which are driving above-average growth in noncash payments. In 2014, India launched a financial inclusion campaign that generated 125 million accounts within six months. In addition, the Reserve Bank of India (RBI) has established new guidelines to

EXHIBIT 4 | Greater Financial Inclusion and Migration from Cash Will Help Expand RDE Retail Payments



Sources: BCG Global Payments Model, 2015; BCG analysis.
Note: Account revenues consist of net interest income and maintenance fees on current accounts (DDAs). Card revenues include transaction-specific fees (interchange fees, merchant acquiring fees, and currency conversion fees for cross-border transactions) and monthly or annual card membership fees; and for debit cards, if applicable, fees on overdrafts and nonsufficient funds. Credit card revenues also include net interest income, penalty fees, and other service fees (e.g., cash withdrawal fees). Noncard transaction revenues include transaction-specific fees and, as applicable, fees for overdrafts and nonsufficient funds. Totals may reflect rounding.

license so-called payment banks—institutions whose objective is to improve financial inclusion by providing basic banking and remittance services to migrant workers, low-income households, small businesses, and other underserved sectors. More than 40 entities have applied, including startups and partnerships between leading telcos and banks, and the RBI has "in principle" approved more than 10.

Such initiatives have fueled the strong adoption of digital payments and the rise of new market entrants. Mobile-banking transactions have increased more than threefold over the past two years, hitting 150 million in 2014. And mobile-wallet transactions have overtaken m-banking transactions. Prepaid payment-instruments providers such as Paytm and MobiKwik (which offer m-wallets) have been gaining traction and have motivated banks to invest in their own digital-payment offerings.

China. The payments market in China is still booming, with growth in noncash payment values expected to range between 10 percent and 15 percent annually over the next decade, depending upon the payment type. Debit and credit cards will continue to be major drivers of growth. In 2014 alone, the number of bank cards issued jumped by 21 percent to roughly 5 billion. Mobile-payment values were the hot spot, rising by a reported 134 percent.

The Chinese market is not only growing but opening up as well. In the past, statecontrolled China UnionPay was the only player permitted to provide clearing services for renminbi-denominated bank-card payments. But since June 1, 2015, other companies—both domestic and foreign—have been able to submit applications for a clearing-services license.

Nonbank players have made a strong entrance in payments with their e-marketplaces and attendant e-wallets—particularly Alibaba with Alipay and Tencent with Tenpay—and are aggressively trying to extend their acceptance in high-traffic apps (such those related to taxi hailing and online shopping). Moreover, they are encouraging users to link their bank accounts to their e-wallet through special promotions. In 2014, during the Spring Festival, Alibaba and Tencent offered digital "red envelopes" with links to cash coupons worth $97 million and $81 million, respectively, to encourage customers to link their bank accounts.

Looking ahead, there will be several areas of disruption. Smaller cities that are underserved by local banks are prime targets of major nonbank players, which are planning to offer online pay, mobile pay, O2O pay (online ordering with offline service and payment), and other products. China's central bank recently issued guidelines for transaction limits on online payments, triggering strong debate among banks and nonbanks regarding the impact on growth and innovation. As new regulations reshape the competitive landscape, leading players will likely drive further market consolidation.

Central Europe. In central Europe, Poland stands out for being ahead of the curve in innovating and adopting emerging payments technology. For example, 75 percent of POS terminals support near-field communication (NFC), and NFC transactions represent more than a third of the total for global card networks. Competition among banks to innovate has heated up, with mBank leading the charge and gaining competitive advantage owing to its superior digital customer experience.

In addition, banks are working together to establish a strong digital infrastructure to spur m-payments. A local payment scheme, Blik, initiated by Poland's six largest banks, was launched in February 2015. The participation of large banks and merchant acquirers means that the scheme has significant adoption potential. In parallel, several Polish banks are piloting the launch of mobile, contactless payment services based on host card emulation.

Latin America. Incumbent banks, which are traditionally slow to innovate, have taken the initiative over the past several years to promote payment electronification and cash substitution, hoping to outcompete new entrants. Examples include m-wallets (such as Stelo in Brazil and Todo Pago in Argentina), the launch of local payments schemes (such as Elo in Brazil), and investments to increase POS penetration—often including NFC. In addition, several governments have been actively promoting e-payments by providing tax incentives, changing regulatory frameworks, and adopting social-transfer e-payments.

One interesting development in some countries is that leading players are leveraging payment-processing platforms owned by bank coalitions in order to develop scalable, systemwide, digital innovations (such as Prisma Medios de Pago in Argentina).

RDE Lessons Learned. One harsh lesson learned by incumbents that did not invest sufficiently in digital payments over the past five years is that new entrants are filling the gaps and gaining traction—in some cases significant traction, as in China. Banks that want to regain or improve their market position and adapt to the new world of digital payments must therefore pursue a multifaceted, customer-centric digital strategy, spanning the front-end customer interface to back-end systems. For example, Axis Bank in India has made significant investments in upgrading its payments infrastructure and improving its ability to innovate and go to market rapidly. Elo in Brazil has excelled in customer centricity by understanding the emerging middle class's pain points in payments and solving them. In Poland, mBank has reinvented its consumer reward program through digital innovation, with strong results.

UNLOCKING THE POTENTIAL OF CONSUMER DIGITAL PAYMENTS

A NEW WORLD OF CONSUMER digital payments is coming into view, spawned by an increasingly connected landscape of people, devices, and social-media platforms. Ubiquitous connectivity, biometrics, tokenization, cloud computing, and the Internet of Things are just a few of the digital trends that will affect the way consumers transact and interact with their banks. These dynamics, moreover, will spur new value propositions that, in turn, will alter the competitive landscape.

There have been myriad digital-payments initiatives, but few have achieved scale.

To better understand how banks can advance in digital payments, BCG carried out a survey of nearly 5,500 consumers in four countries—France, Germany, the U.K., and the U.S. Our objective was to grasp why the adoption of digital payments has been relatively slow to date, as well as to identify current consumer needs, preferences, and pain points. Based on our findings and extensive client work, we are able to outline actions that banks should take to unlock the potential of consumer digital payments, and at the same time successfully adapt to the entry of new and powerful nonbank players into the market. Overall, banks must first understand why traditional payment methods remain resilient, then determine how best to seize the digital opportunity.

Why Traditional Payment Methods Remain Resilient

Over the past ten years, there have been myriad digital-payments initiatives. Few have achieved sufficient scale. Traditional payment methods, notably cards, remain predominant. For example, BCG estimates that barely 1 percent of global retail sales originate from mobile phones. Even online, where the use of new payment forms has been greatest, general-purpose cards continue to prevail with a share of roughly 70 percent.

The primary reasons for the slow uptake of digital payment methods are threefold: a lack of compelling value propositions that outperform traditional payment methods and reward structures; persistent data privacy and security concerns; and, as a consequence, insufficient merchant acceptance and consumer comfort.

Lack of Compelling Value Propositions. There have been few cases of value propositions strong enough to alter consumer behavior in payments. In our survey, three-quarters of respondents, on average, were generally satisfied with currently available means of payment for POS purchases. (See Exhibit 5.) Continued enhancements of card products—such as tighter security with EMV, improved online authorization, tokenization, and innovative reward programs—as well as ever-increasing consumer penetration and merchant acceptance have enabled cards to remain dominant even in new channels (such as in-app).

Data privacy and security concerns remain significant barriers to digital adoption.

Indeed, it's only when banks and payments networks have ignored consumer and merchant pain points that alternative payment methods have managed to take off. PayPal, for example, has gained traction in countries where credit-card penetration is relatively low, where there is no online debit facility (such as Germany), or where small e-merchants have struggled to obtain an acquiring account that enables them to accept cards (such as France and the U.S.).

Data Privacy and Security Concerns. Our survey confirmed that worries about data privacy and security remain significant barriers to digital adoption. (See Exhibit 6.) Moreover, we found that if providers do not alleviate these concerns, consumers will not be interested in taking advantage of adoption incentives (such as deals and offers) or trying value-adding functionality (such as spending-management tools), even though they find such features attractive.

To be sure, when it comes to consumer trust with regard to security and payment privacy, our survey found that banks were the clear winners. This finding has important implications for the leadership role that banks can play—and the negotiating power they can wield—with potential partners.

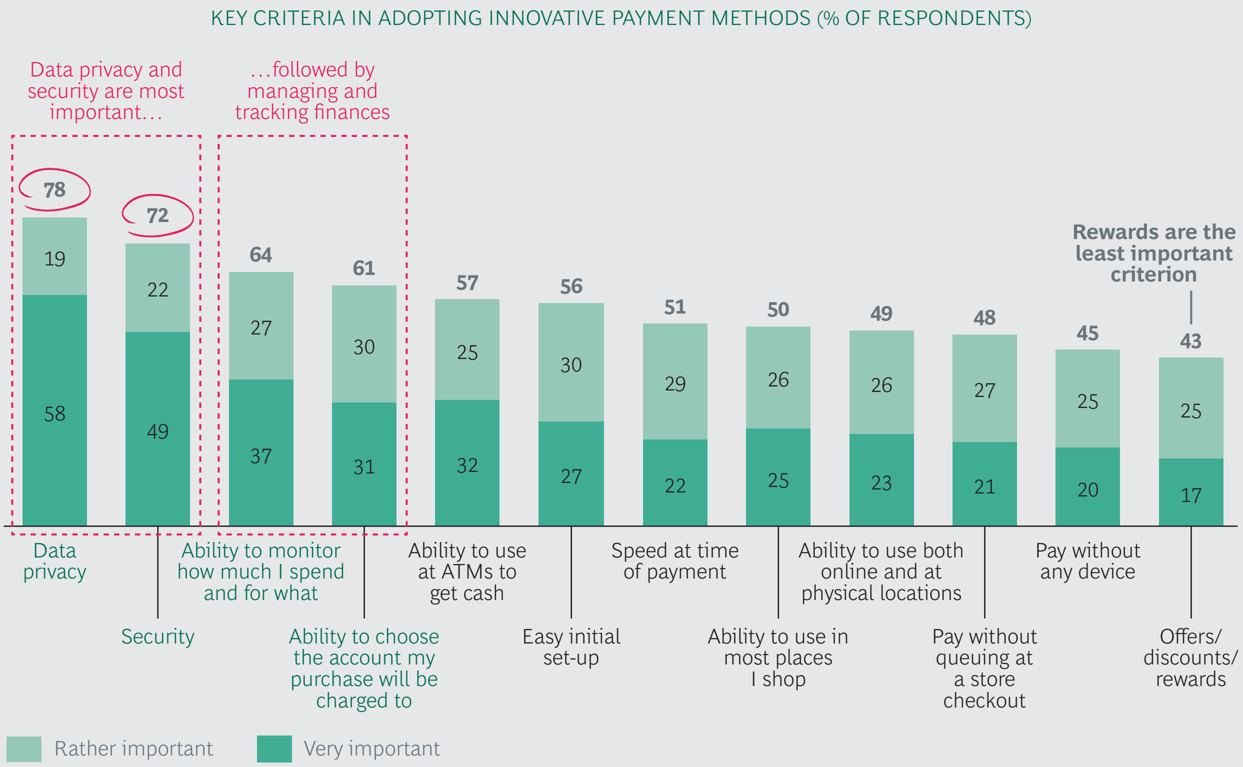
Insufficient Merchant Acceptance and Consumer Comfort. As both incumbents and new nonbank entrants know, it is very difficult to generate a virtuous consumer-adoption and merchant-acceptance circle. Important lessons have been learned over the past decade, however. In the online world, achieving sufficient merchant acceptance requires either the ownership of a popular market-

Exhibit 5 | Consumers Are Generally Satisfied with Traditional Payment Methods

SATISFIED RESPONDENTS[1] (%)	POS	BROWSER	SMARTPHONE
Cash (or cash on delivery)	**81**	63	NA
Credit or debit card	**83**	79	78
Credit or debit card on file	NA	**81**	**81**
Prepaid card	70	77	75
Bank account transfer	NA	**85**	**83**
PayPal	65	73	70

Source: Online survey conducted in June 2015 on a sample of 5,438 people in France, Germany, the U.K., and the U.S.; BCG analysis.
[1]Includes responses of "very satisfied" or "rather satisfied" for the specific payment type; NA = not applicable.

EXHIBIT 6 | Data Privacy and Security Concerns Are Significant Barriers to Digital Adoption



Source: Online survey conducted in June 2015 on a sample of 5,438 people in France, Germany, the U.K., and the U.S.; BCG analysis.

place (such as eBay with Paypal, or Alibaba with Alipay) around which to build a strong value proposition, or a consortium of banks deciding early on to cooperate in developing a specific solution (such as iDEAL in the Netherlands). In the physical world (in mature markets), sufficient merchant acceptance requires partnering with card issuers and infrastructure providers.

Yet merchant acceptance alone will not drive greater consumer adoption. Consumers must find value in using a new payment type or form factor and feel comfortable using it. Even if providers devise compelling value-adding features and alleviate security concerns, adoption will be gradual. As the continued use of cash demonstrates, consumers do not rapidly switch to a new payment type, no matter how attractive it is. Recent large entrants such as Apple Pay, Android Pay, and Samsung Pay have clearly taken note of these lessons. They are offering advanced security, striving to achieve broad acceptance across POS channels, and partnering with banks and global card networks to leverage the existing payments infrastructure. Their future plans include loyalty rewards and broader shopping-related services. Their go-to-market and user-experience expertise, combined with deep funding and a strong drive to expand their broader ecosystems, will help them succeed in spurring adoption (although uptake will likely vary by country).

Looking ahead, new nonbank entrants do not appear to present a significant competitive threat to banks in Europe and North America in the short term because their priorities are not to capture payments revenue streams or to become full-fledged banking-service providers. Their entrance could, however, disrupt the competitive landscape, enabling issuers that excel at harnessing m-wallets' potential to gain greater market share. By contrast, in China, nonbank entrants into the payments arena pose a significant threat to incumbents. Major e-commerce players such as Alibaba and Tencent, for example, are rapidly expanding their financial-services offerings.

There are longer-term risks in mature markets, however, and they are potentially high. For example, if an m-wallet provider becomes a dominant player, it could try to control customer access and influence behavior. The provider could add functionality that enables customers to optimize their use of banking products (such as those related to credit, savings, and rewards), resulting in weaker relationships between customers and their banks and higher switching rates. An m-wallet provider could also offer a reward program superior to those of banks. What's more, it could use the threat of exclusion from its m-wallet to raise its revenue share requirement—say, from 15 to 20 basis points in the U.S.

How Banks Can Seize the Digital Moment

Banks must take decisive action along several dimensions in order to ensure their place as key providers of digital payments and related value-added services. First, the banking industry as a whole must retain a leadership position in standards adoption, advanced security measures, and customer education. Second, banks as individual providers must differentiate themselves.

> Banks should focus on smart partnering rather than going it alone.

The Banking Industry as a Whole. Banks (along with card networks and clearing and settlement systems) remain at the center of the payments universe. They bring critical infrastructure, valuable experience (especially in areas such as fraud detection and regulatory compliance), and customer contact. At the highest level, banks need to educate consumers about digital payments and their added value. In BCG's survey, 55 percent of respondents either found no value in m-wallets or had never heard of them. Working with card networks, the banking industry has an important role to play in ensuring that security and communication standards are implemented, protocols are followed, and platforms are open with full transaction visibility.

Security is paramount, of course. Banks, along with card networks and merchant acquirers, need to drive the securing of cards on file through tokenization, create better 3D Secure customer flows, and educate consumers on security and privacy features. While advanced biometric-based security is a powerful tool, our survey found that only 45 percent of respondents found the "pay using biometric identification" option as "rather attractive" or "attractive." Hence, biometrics will require further promotion by m-wallet providers and other stakeholders.

Banks as Individual Providers. In order to sufficiently differentiate themselves and prosper in the new digital world, individual banks need to form smart partnerships, enhance consumer engagement linked to payments, optimize the overall consumer banking experience, and experiment with next-generation technology.

- *Form smart partnerships.* In our view, banks should focus on smart partnering rather than going it alone. How banks approach partnering will vary by country, depending on each nation's specific ecosystem, innovation level, customer pain points, and consumer willingness to change payments behavior. In markets with concentrated banking sectors, banks could succeed by working together to build a superior domestic m-wallet or collaborating with a global card network to leverage the latter's experience and global platform. Joint ventures work best in markets where banks have a history of positive collaboration (such as in the Netherlands), and would likely have a strong advantage over third-party wallets. Yet even in these markets, success will depend highly on the ubiquity of NFC and effective customer promotion.

  Banks in an increasing number of markets have an opportunity to partner with Apple Pay, Android Pay, and Samsung Pay. While such partnerships enable customers to make their preferred m-wallet choices, banks need to establish a strong negotiating position, leveraging their assets (such as established customer trust and long-standing relationships) to ensure that they deliver value where their partner cannot. In markets where banks have been mobile-payments innovators (such as Australia), they will have a relatively strong negotiating position.

In fragmented markets with low bank concentration and multiple mobile networks, partnering with a dominant network or a device manufacturer may be the best path. Accords with device manufacturers tend to be less challenging than those with mobile network operators because there is less conflict of interest and less ambiguity regarding who "owns" the customer.

The digitization of card credentials and biometric authentication have profound implications for banks.

- *Enhance consumer engagement linked to payments.* The advent of smartphones and mobile apps is providing banks with a unique opportunity to address evolving customer needs, both enhancing and increasing the frequency of interactions and thereby strengthening relationships. Indeed, BCG's survey showed that consumers are hungry for more control over their transactions and greater visibility with regard to their finances. To meet such needs, banks could offer advanced mobile features, such as the ability to dispute or flag a transaction as potentially fraudulent, receive personalized alerts, have flexible rewards redemption, or turn a card on or off. Affluent consumers, in particular, are seeking preferential treatment (for example, promotions for successful mobile apps such as Uber) and unique offers (for example, privileged access to an event) that can be readily delivered through a mobile app.

  Banks also have access to valuable new data—such as location-based and context-aware information generated by the use of m-wallets and mobile apps—that they can leverage to improve fraud detection and provide more personalized loyalty programs. Such data can be extremely useful, but banks must be careful not to overstep customer-privacy preferences. BCG estimates that two-thirds of the total value potential of big data is at risk if stakeholders fail to establish proper restrictions and abide by them.

- *Optimize the overall consumer-banking experience.* As long as banks provide the current account (DDA), they have a critical competitive advantage over nonbank players in helping customers manage their finances and maximize their rewards. Banks must ensure, however, that their mobile app delivers a superior mobile experience (such as actionable alerts) and is not merely a miniaturization of online banking. Banks will be required to observe usage patterns and solicit customer input to continually enhance their apps. Our recent work with major banks has demonstrated that there remains vast potential to enhance the consumer offering in mobile daily banking.

  Banks can, for example, add various functions to enable customers to readily manage their cash flow and credit needs, including budget management tools such as customized overspending alerts as well as easy calculators to determine the best way to finance a big-ticket item. Banks could also link products, rewards, and offers together in an all-encompassing value proposition. Further, they could deliver new credit products, including consumer loans at the point of sale, through better and faster data analytics that can produce a credit decision in less than 30 seconds.

  In addition to mobile banking apps, the digitization of card credentials and biometric authentication have profound implications for banks. Banks can leverage biometric authentication to facilitate origination across products such as credit cards, consumer loans, and insurance. They can also issue digital credentials directly into select m-wallets and mobile applications.

Whether an issuer should have a stand-alone app (dedicated to credit cardholders) or leverage a broader mobile-banking app will depend upon each bank's payments strategy. A combined app could be optimal for issuers that have built their business primarily through cross-selling to retail banking customers. Stand-alone apps coupled with biometric log-ins have the advantage of providing a strong user experience early in the customer adoption phase, with no competition from other products in determining the app's enhancements. Improvements that offer differentiation—such as fraud detection, personalized alerts, and flexible rewards redemption at the point of sale—will be critical to long-term usage and customer retention.

- *Experiment with next-generation technology.* Banks must also look beyond current technology and the consumer demands of today. They must explore next-generation technology (such as blockchain technology) and data analytics to figure out new sources of value. One possibility is an urgent-credit service enabled by an instant payment system coupled with advanced underwriting. Another might be a credit-card form factor that uses a fingerprint sensor to provide key features such as displays of recent transactions. Such an offering could put banks back in control of the form factor and potentially displace m-wallets.

Some banks have effectively established an innovation lab aimed not just at experimenting with new ideas but also at commercializing them. Banks must take an enterprise-wide approach to innovation to assure that all resources and businesses are leveraged and that investments are optimized. Moreover, they must adopt an entrepreneurial approach to product development and marketing. While they still need multiyear technology road maps, they also need to adopt a more agile development approach that allows them to adapt to a shifting competitive landscape and launch new features and functions on a quarterly basis. Many banks are well equipped to be at the forefront of payment innovation—and a few will become disrupters.

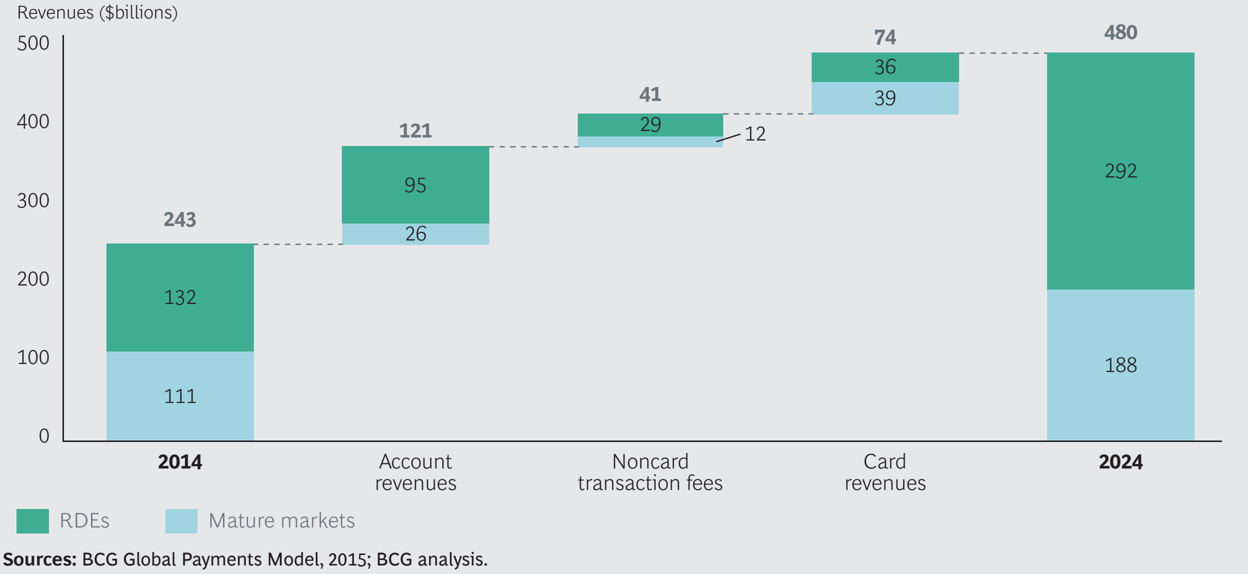
WHOLESALE TRANSACTION BANKING

BOLSTERING TREASURY AND TRADE SERVICES

Wholesale transaction banking—which includes payments, cash management, and trade finance—is an increasingly important business for banks, one critical to building strong client relationships and cross-selling. It also has several structural advantages: moderate cyclicality, relatively low risk, and (with the exception of trade finance) low capital requirements. Further, it is a fairly stable source of low-cost liquidity and funding.

Wholesale transaction banking generated about $330 billion in revenues globally in 2014. Account and payment revenues (covered in this report) generated $243 billion and are expected to nearly double to about $480 billion by 2024, a CAGR of 7 percent. (See Exhibit 7.)

Exhibit 7 | Wholesale Account and Payment Revenues Are Forecast to Reach $480 Billion in 2024



Sources: BCG Global Payments Model, 2015; BCG analysis.
Note: Wholesale includes business and government. Account revenues consist of net interest income and maintenance fees on current accounts (DDAs). Cards include small business credit and debit cards and commercial cards (travel and entertainment; purchasing cards). Card revenues consist of transaction-specific fees (interchange fees, merchant acquiring fees, and currency conversion fees for cross-border transactions), monthly or annual card membership fees, and net interest income, penalty fees, and other service fees (e.g., cash withdrawal fees). Noncard transaction revenues include transaction-specific fees and fees for overdrafts and nonsufficient funds. Totals may reflect rounding.

Trade finance added $45 billion, and value-added services (such as information reporting) contributed another $40 billion. Trade finance revenues should reach nearly $100 billion by 2024, a CAGR of 8 percent. (See the sidebar "Being a Champion in Trade Finance.") In general, growth will be driven by increasing volumes and deposit balances, as well as by improving spreads. The importance of all these drivers, however, will vary by region. In RDEs, account revenues stand out as a dominant growth driver.

Treasurers and CFOs cite service quality and process execution as top criteria.

Although revenue-pool growth projections are strong, excelling in wholesale transaction banking is becoming increasingly difficult. For example, the attractiveness of the business has heightened competition among banks, while deficiencies in bank services and the rise of multibank platforms have opened the door to nonbank competitors. In addition, the regulatory compliance burden has grown dramatically, adversely affecting client relationships, bank operations, product development, and international expansion. (See the sidebar "Compliance: A Key Element of Success.")

In our view, there are four critical steps to overcoming current challenges and becoming what we call a transaction-banking champion:

- Focusing on the true needs of treasurers and CFOs
- Excelling in the basics
- Differentiating along key dimensions (such as superior data and analytics; risk management and regulatory advisory services; and flexible platforms and open architecture)
- Outperforming in go-to-market strategies

Focusing on the True Needs of Treasurers and CFOs

The roles of treasurer and CFO at large corporations and multinationals have evolved considerably since the financial crisis of 2007–2008. Responsibilities have expanded and the stature of these positions has grown. Mandates now encompass a complete balance-sheet mission that includes optimizing working capital and tightening risk management in a time of rising security and fraud threats.

BCG, leveraging a proprietary survey conducted in cooperation with BNP Paribas—a study involving some 500 corporate treasurers and CFOs—has identified critical client needs that offer banks clear opportunities to differentiate themselves. For example, treasurers and CFOs cite service quality and process execution as top criteria for selecting a bank. In addition, we see an overarching theme: companies increasingly want banks to act as advisors and partners in solving their problems and improving their operations. Allowing for some variation by region and client segment, corporate clients ranked having creative ideas and clear solutions either first or second in importance for their relationship managers (RMs). Clients also expect their banks to liaise with other business units (such as retail banking) to help solve difficulties such as inefficient client-to-business or business-to-client payments. (See also "Corporate Treasury Insights 2015: As the Dust Settles," a Focus report by BCG and BNP Paribas, May 2015.)

Further, in financing, treasury needs have gone far beyond traditional credit products. They now require solutions in areas such as integrated working-capital financing, off-balance-sheet financing, and cash optimization.

In terms of service quality, treasurers and CFOs are critical of banks' performance in several areas. They cite inefficiencies and ambiguity in service delivery and an unwillingness to explore nontraditional solutions. They would like to see increases in process efficiency and a reduction in complexity—more straight-through processing (STP), less paperwork, and more automation of administrative tasks. Treasurers and CFOs also expect transaction-banking partners to help them tackle

BEING A CHAMPION IN TRADE FINANCE

Despite the recent slowdown in trade flows, trade finance remains one of the most dynamic businesses in the wholesale transaction-banking arena. Shifts in corporate needs and the rise in demand from small and midsize enterprises (SMEs) are opening numerous opportunities. In addition, trade flows are shifting, with the north-to-south, RDE-to-RDE corridors growing at an above-average pace. These opportunities, however, will be hard won. Increasing regulation and its attendant compliance requirements are hindering banks' ability to respond to new client demands and deliver new services efficiently.

In response, many banks are reviewing and pruning their geographic footprint and client relationships, resulting in service gaps. Rising competition from nonbank providers, which tend to be more nimble and proactive, is threatening banks' market share. Nonetheless, banks can succeed if they deliver a differentiated value proposition and forge smart partnerships.

A differentiated value proposition requires an organizational structure that listens to the voice of the customer and enables coordinated, integrated delivery of trade finance—as well as payment and cash management—services. Two trends have led many corporations to integrate their cash and trade-finance operations more closely: first, the rise of open-account trading, and second, working capital constraints. As we have seen, banking clients are seeking holistic solutions, not just individual products. The Bank Payment Obligation (BPO) is an example of this. Collaboratively developed by the International Chamber of Commerce and SWIFT, the BPO aims to bring together the security of documentary trade with the convenience and efficiency of open-account trade, opening doors to FX and hedge revenue and to direct supply-chain financing. For example, banks can offer lucrative receivables-finance solutions to exporters using BPO-facilitated trade. Developing such solutions will require close coordination across product and sales teams, including FX. Overall, banks are finding that if they can deliver a streamlined, transparent, data-rich FX and payment service, they can compete against the multibank FX platforms.

Within the organization, a differentiated value proposition requires several layers of capabilities. At the foundation, a flexible technological platform that enables integrated services and the easy addition of new functionality is needed. In the middle and at the front end, delivery models must be tailored to target segments, avoiding the "everything to everyone" syndrome. Large corporations need a robust client-service team consisting of product and country specialists as well as industry experts. The middle market can be served by an RM who has strong industry expertise and coordinates well with product and country specialists. At the front end, channels tailored to the needs of specific segments are critical.

As for partnerships, banks are increasingly finding that working with the right collaborator is the most effective means of delivering their value propositions across key regions. Global banks and strong local and regional banks in emerging markets are benefiting from partnerships that combine international infrastructure and sophisticated product suites with local expertise and savoir faire.

Furthermore, while much of banks' energy has been focused on serving large corporate clients, significant opportunity lies in serving the small and midsize market. BCG estimates that SMEs accounted for more than one-third of export trade in 2012 and that their share will likely hit 40 percent by 2020. The increasing digitization of processes has significantly lowered banks' cost-to-serve for this segment.

COMPLIANCE
A Key Element of Success

Amid the tsunami of regulations that has flooded the financial-services industry since the financial crisis, compliance has become a key element of success in all sectors, including transaction banking. Yet many payments providers have invested extensively in compliance without seeing the desired results. This disconnect is often the result of two issues:

- Deficiencies in "Big C" (the formal compliance organization): typical problems include a lack of top talent, difficulty in implementing regulatory change, and problems with IT systems
- A payments business that does not prioritize compliance or understand how regulations should affect its business model

In order to achieve sustainable compliance, the payments business needs to take the lead. Senior leadership must set and enforce compliance objectives and make them a cornerstone of the company's culture. The focus on compliance must extend to the front line, which needs to understand how daily interactions with clients must be tailored. The right incentives for both management and the front line can help embed a strong culture of compliance.

Moreover, effective compliance must go beyond personnel to include the way products are designed. Operating controls must be robust, and the results of compliance must be continuously measured. Organizations that can identify compliance issues, discuss them candidly, and move to address them effectively will find themselves well positioned to thrive in the ever-evolving regulatory climate. (For more on this topic, see "Enabling Sustainable Compliance at Banks," BCG article, September 2015.)

inefficiencies in their own operations. For example, many financial executives are seeking support both in implementing payment factories and in improving electronification of their financial supply chains (such as through e-invoicing).

In terms of engagement and integration, treasurers and CFOs identify numerous pain points. For example, increased regulatory requirements—particularly around know-your-customer and anti-money-laundering initiatives—have adversely affected relationships between banks and financial executives, with many treasurers and CFOs believing that banks' compliance processes do not adequately consider the impact on clients. They also find difficulties in the account-opening process and in systems integration and would like to see simpler and faster integration (with fewer tests and iterations) as well as more flexible integration processes. On a continuing basis, they would like to have access to more self-administration tools and a simpler way of managing accounts.

Finally, with both treasurers and CFOs increasingly open to considering third-party, nonbank providers to address their needs, there is real urgency for banks to raise their games. Our survey showed that 20 percent of treasurers and CFOs are already using nonbank providers for at least some transaction-banking services. Moreover, these providers are targeting the most profitable products, such as supply-chain finance, foreign exchange, and cross-border payments. Although banks still possess a competitive edge—higher levels of trust, strong track records in compliance, expertise in running reliable payment systems, and deep relationships built over time (reinforced by high switching costs for clients)—they must still face the probability of losing direct interactions with their clients to nonbank players. Those that successfully address the unmet as well as shifting needs of treasurers and CFOs are likely to establish long-term advisory-based relationships and a greater share of wallet. More cross-selling can translate into more revenue to invest in differentiation and innovation, which in turn can lead to a virtuous circle of more business and still more investment. This potentially virtuous circle is worth an estimated $240 billion in account and payment revenue growth from year-end 2014 through 2024.

Excelling in the Basics

The basics begin with a superior customer experience, an advisory-driven relationship model, and, for those serving international businesses, robust global-coordination capabilities. In addition, transaction-banking champions tend to have advanced pricing strategies and tactics.

A Superior Customer Experience. Customers need to be satisfied across the entire value chain, from on-boarding and systems integration to ongoing interactions across channels. Key goals should include steady improvements in both STP rates and response times—one aim being faster resolution of exceptional items—as well as lower enterprise-resource-planning (ERP) integration time, greater automation of administrative tasks, and clearer service-level agreements. Improving STP rates involves implementing new standards, in particular ISO 20022, the universal financial-industry message scheme. In addition, our survey respondents consistently mentioned that they do not want any single bank to have full visibility into their transaction flows.

The implications of the growing reliance on third-party players are especially profound for banks' technology road maps and their impact on the customer experience. Indeed, the IT and operations side of the business must understand client needs just as much (if not more) as RMs do. Among the questions that banks should address are the following:

- To what degree are clients relying on the bank's online channel?
- Are there certain features and functions of the online portal that no longer serve the needs of large corporate customers?
- To what extent are clients willing to pay for integration services, and should the bank invest more to enhance integration tools?

An Advisory-Driven Relationship Model. Such a model embodies a problem-solving culture. While a "can-do" attitude starts at the top, hiring RMs with certain qualities solidifies the foundation. RMs need to look at problems from each client's standpoint, understanding their particular working-capital and process-inefficiency challenges. Transaction-banking champions tend to recruit more from industry, finding it easier to train people in payments and cash-management products than in industry-specific domain knowledge. Like their capital-markets colleagues, champions bring industry expertise to commercial pitches.

> The IT and operations side of the business must understand client needs as well.

Robust Global-Coordination Capabilities. As treasury decision-making has become more centralized (both at regional and worldwide levels), global-coordination capabilities have become more important than product depth or credit capacity. Transaction-banking champions focus on improving coordination for core customers, avoiding the temptation to try to be everything to everyone. They also strengthen client loyalty through an enhanced service model that features the RM as a single entry point who owns the relationship and leverages the bank's full capabilities. Meanwhile, there is still a role for local banks to serve global companies, much as global banks continue to need specialists in specific countries and regions.

Advanced Pricing Strategies and Tactics. Most banks have room for improvement in their pricing structures. RMs often assume that they must discount in order to win business, so actual pricing is often much lower than the bank's guidelines. On average, we see 30 to 40 percent discounting across products, with wide disparities in price realization per client. Such discounts can rarely be explained by rational criteria. Indeed, expected drivers such as client volumes, the size of the relationship, the number of products bought, or new-versus-renewal business *combined* typically explain less than 7 percent of price variation. Rather, pricing is often driven by bank cultures that place a higher value on closing the deal than on optimized pricing.

In light of this situation, repricing can yield an immediate and much-needed performance lift, often 10 percent or more of total fee revenue, with two-thirds of the increase obtainable within 12 months. Superior pricing capabilities can also help steer both the bank and its clients toward an optimal product mix that better reflects risk, capital, and liquidity factors.

Clients want better data to track payments and accounts payable and receivable.

To support better pricing decisions, banks should move from "pricing as an art," driven by RM perceptions of required discounts, toward "pricing as a science," where the RM is equipped with analytical tools that provide client-specific guidance. One North American bank, for example, built a detailed pricing algorithm into an RM tool to give guidelines based on specific client situations. If the RM wanted to deviate from the norms, the approval process was automated into the workflow, and specific tools made the impact of different price points on the RM's incentives fully transparent.

Differentiating Along Key Dimensions

There are several areas in which banks can truly stand out and differentiate themselves from competitors: superior data and analytics, risk management and regulatory advisory services, and flexible platforms and open architecture.

Superior Data and Analytics. In the short term, banks should invest in providing more basic data to all client segments. They should then explore demand from key client segments for advanced analytical tools, which they can potentially choose to develop over the medium term. According to our survey, clients need better data to track payments and accounts payable and receivable, as well as to simplify reconciliation. They value analytical tools that help improve working capital and operating efficiency. Such tools can include peer-group metrics as well as customized recommendations for cash velocity, gearing ratios, and bad debts.

Risk Management and Regulatory Advisory Services. There are many opportunities for banks to develop new compliance and risk-management services, with the goal of making compliance an asset rather than a liability. Banks should structure a commercial product that would help treasurers and CFOs with know-your-customer metrics, transaction monitoring, and alert management. Banks with expertise in local regulations, sophisticated systems for assessing counterparty risk, and advanced tools for detecting fraud should evaluate opportunities to commercialize these capabilities as well.

Flexible Platforms and Open Architecture. While treasurers and CFOs of large corporations typically want a consolidated view of their balances across all bank accounts, investments, and open-account trades, they do not necessarily want their bank to provide this view. Instead, they want the bank to readily push the data they need to the system of their choice, which requires easier integration between their systems and those of their banks, as well as the flexibility to make changes to data formats. To meet these demands, banks need to continue their migration to standard formats and open architecture.

By contrast, for small and midsize enterprises (SMEs), the value of a bank's commercial portal and a consolidated view within that portal is relatively high. Hence, banks that can deliver on these needs will deepen their relationships and face less risk of disintermediation by third-party providers with their SME clients. In addition to functionality, banks can make their portals more attractive by improving user-friendliness and providing greater ability to customize.

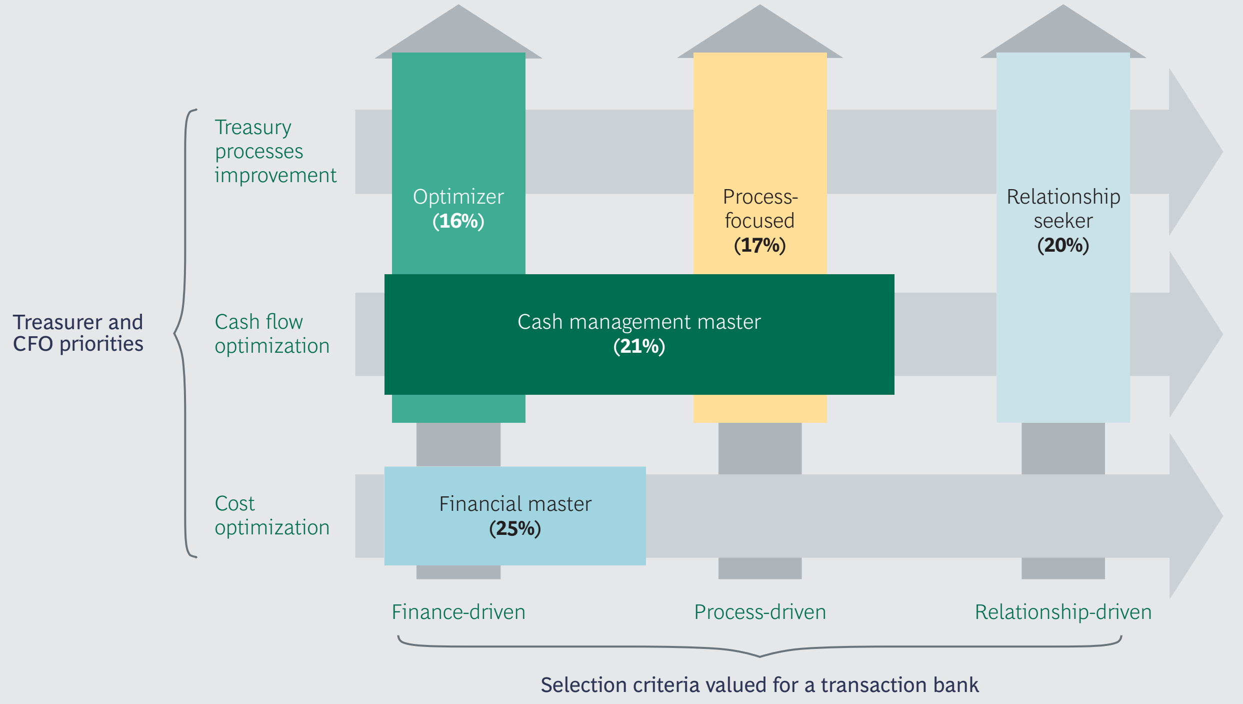
Outperforming in Go-to-Market Strategies

The final step in becoming a transaction-banking champion is to outperform competitors in go-to-market strategies. BCG has found that the winning combination involves fully understanding both overall client needs and the specific priorities of treasurers and CFOs. Client needs should be examined along four key dimensions: size, industry, region, and financial leverage. Treasurer and CFO needs can be categorized according to whether the priority is process improvement, cash flow optimization, or cost optimization; and within each of these categories, whether the motivation is finance-driven, process-driven, or relationship-driven. (See Exhibit 8.)

In "Corporate Treasury Insights 2015: As the Dust Settles" (a Focus report by BCG and BNP Paribas, May 2015), we observed that transaction banks need to respond to treasurers' expanded roles by elevating the quality and reach of their service offerings. To remain competitive and sustain growth, they must provide smart pricing schemes, become more client centric, and create a richer and more convenient experience. Indeed, the new landscape creates high expectations from treasurers and CFOs and a sense of urgency for banks to close service gaps and differentiate their offerings, providing a combination of service excellence, cybersecurity leadership, and innovative use of digital technologies.

Exhibit 8 | Go-to-Market Strategies: Understanding Treasurer and CFO Priorities Is Critical

BCG PROPRIETARY PROFILE SEGMENTATION OF TREASURERS AND CFOs



Source: BCG client experience and analysis.

FOR FURTHER READING

The Boston Consulting Group has published other reports and articles that may be of interest to senior financial executives. Recent examples include those listed here.

Enabling Sustainable Compliance at Banks
An article by The Boston Consulting Group, September 2015

Global Asset Management 2015: Sparking Growth with Go-To-Market Excellence
A report by The Boston Consulting Group, July 2015

Global Wealth 2015: Winning the Growth Game
A report by The Boston Consulting Group, June 2015

Corporate Treasury Insights 2015: As the Dust Settles
A Focus by The Boston Consulting Group and BNP Paribas, May 2015

Global Capital Markets 2015: Adapting to Digital Advances
A report by The Boston Consulting Group, May 2015

Operational Excellence in Retail Banking 2015: Creating Digital Banks with a Human Touch
A Focus by The Boston Consulting Group, April 2015

The Bionic Bank
A Focus by The Boston Consulting Group, March 2015

Global Corporate Banking 2015: The Look of a Winner
A report by The Boston Consulting Group, March 2015

Overcoming the Digital Dilemma in Wealth Management
An article by The Boston Consulting Group, February 2015

The Emerging Equilibrium in Banking: A Tool Kit for Success
A Focus by The Boston Consulting Group, December 2014

Global Risk 2014–2015: Building the Transparent Bank
A report by The Boston Consulting Group, December 2014

Time for Rebalancing: Insights from BCG's Treasury Benchmarking Survey 2014
A Focus by The Boston Consulting Group, December 2014

NOTE TO THE READER

About the Authors

Stefan Dab is a senior partner and managing director in the Brussels office of The Boston Consulting Group and the global leader of the transaction-banking segment of the Financial Institutions practice. **Mohammed Badi** is a partner and managing director, and **Laurent Desmangles** a senior partner and managing director, in the firm's New York office. **Gero Freudenstein** is a partner and managing director in BCG's Frankfurt office. **Alenka Grealish** is a senior knowledge expert in transaction banking in the firm's Chicago office. **Federico Muxi** is a partner and managing director in BCG's Buenos Aires office. **Pedro Rapallo** is a partner and managing director in the firm's Madrid office. **Olivier Sampieri** and **Yann Sénant** are partners and managing directors in BCG's Paris office. **Kuba Zielinski** is a partner and managing director in the firm's Boston office.

The authors would particularly like to thank the following BCG colleagues for their valuable contributions to the conception and development of this report: Rajiv Chandna, Adrien Cipel, Pierre-Marie Despontin, Torben Deuker, Jean Dobbeni, Jeff Eeckhout, David He, Marcin Kotlarek, Sushil Malhotra, Alexandre Martin, Brian O'Malley, Çağri Ogan, Pierre Paoli, Maarten Peeters, Pedro Pereira, Bharat Poddar, Sukand Ramachandran, Tristan Thomas, and Pieter van den Berg.

In addition, the authors are extremely grateful to core members of the BCG Global Payments Model team: Jürgen Eckel, Ankit Mathur, Christoph Militzer, and Anubhav Mital. Raman Chawla provided helpful support.

Sincere appreciation also goes to Ashwin Adarkar, Lionel Aré, Brent Beardsley, Jorge Becerra, Alex Drummond, Ravi Hanspal, Monish Kumar, Flavio Magalhaes, Niclas Storz, Tjun Tang, Steve Thogmartin, Fabrizio Tiso, Andrew Toma, Juan Uribe, and André Xavier.

The authors are also deeply thankful to André Casterman, Laurent Mertens, and Wim Raymaekers from SWIFT.

Finally, we thank Philip Crawford for his editorial direction and Janice Willett, our copyeditor, as well as other members of the editorial and production team, including Katherine Andrews, Gary Callahan, Angela DiBattista, Kim Friedman, Abby Garland, and Sara Strassenreiter.

For Further Contact

Stefan Dab
Senior Partner and Managing Director
BCG Brussels
+32 2 289 02 02
dab.stefan@bcg.com

Mohammed Badi
Partner and Managing Director
BCG New York
+1 212 446 2800
badi.mohammed@bcg.com

Laurent Desmangles
Senior Partner and Managing Director
BCG New York
+1 212 446 2800
desmangles.laurent@bcg.com

Gero Freudenstein
Partner and Managing Director
BCG Frankfurt
+49 69 91 50 20
freudenstein.gero@bcg.com

Alenka Grealish
Senior Knowledge Expert
BCG Chicago
+1 312 993 3300
grealish.alenka@bcg.com

Federico Muxi
Partner and Managing Director
BCG Buenos Aires
+54 11 4317 5900
muxi.federico@bcg.com

Pedro Rapallo
Partner and Managing Director
BCG Madrid
+34 91 520 61 00
rapallo.pedro@bcg.com

Olivier Sampieri
Partner and Managing Director
BCG Paris
+33 1 40 17 10 10
sampieri.olivier@bcg.com

Yann Sénant
Partner and Managing Director
BCG Paris
+33 1 40 17 10 10
senant.yann@bcg.com

Kuba Zielinski
Partner and Managing Director
BCG Boston
+1 617 973 1200
zielinski.kuba@bcg.com

For information or permission to reprint, please contact BCG at:
E-mail: bcg-info@bcg.com
Fax: +1 617 850 3901, attention BCG/Permissions
Mail: BCG/Permissions
The Boston Consulting Group, Inc.
One Beacon Street
Boston, MA 02108
USA

10/15

The Boston Consulting Group