

Excerpt from the World Payments Report 2010
Alternative Payment Service Providers

World Payments

REPORT **2010**



Alternative Payment Service Providers

SPOTLIGHT

Innovation in technology has changed the way individuals interact and has helped to pave the way for greater competition from non-bank PSPs. Consumers, driven by convenience and price, are increasingly leveraging mobile and internet technologies to buy and sell via online auctions, interact via gaming and social networking sites, purchase goods and services via the internet for home delivery and make person-to-person (P2P) payments.

We estimate global e-payments¹¹ and m-payments collectively accounted for approximately 20.3 billion transactions valued at some €832 billion in 2009. Of those payments, almost 8.6% of the volume was conducted via alternative (non-bank) providers and channels, rather than traditional banking providers. With card payments representing some 158 billion transactions, another sizeable proportion of these were captured by alternative providers.

There are wide regional variations in the use of e-payment and m-payment products across the world, with transactions ranging from small values to substantial sums, conducted via a range of payment methods, and driven by different business models and players along a complex value chain.

Fundamentally, the development of e-payments and m-payments is driven by country-specific economic, technological and social factors—which shape the level of penetration and the propensity of users to embrace or reject different payment means (see Figure 1.9). Accordingly, each payments market is driven by a different mix of critical success factors.

In emerging markets, for example, traditional banking services are unavailable or unaffordable for large segments of the population, while mobile phone penetration rates are high. As a result, mobile payments have gained significant traction, with limited involvement by financial institutions. In South East Asia, for instance, our research shows m-payment transactions have reached the billion mark, with mobile channels most frequently used for shopping, travel reservations and payments, product research (by Web surfing) and banking transactions.

In developed countries, m-payments services are in a more formative stage, with commercial adoption limited by a multiplicity of different standards, unclear business models and the reluctance of telecom operators, banks and other stakeholders to resolve their conflicting interests and integrate value chains. Nevertheless, the outlook for m-payments remains optimistic for the next three to five years.

Developed markets with a well-established banking infrastructure and high internet penetration represent a prolific ecosystem for e-payments players, which is already contributing to payments growth. In Europe, for instance, there are three times as many mobile-phone subscribers (86% of inhabitants aged 16 and up¹²) as mobile-internet users (21% of that 86%¹³), indicating European mobile-payments adoption has room to expand significantly.

As part of the emerging e-payments trend, merchants are increasingly becoming multi-channel and multi-device marketers, and banks are also starting to provide new methods for consumers to manage their finances in real time. Thus in coming years, while debit and credit cards will continue to dominate online payments, alternative options will certainly develop to complement card usage.

¹¹ In this spotlight, “e-payments” refers only to online payments for e-commerce transactions

¹² “Realities of Mobile Commerce in Europe”, Forrester Research, July 15, 2009

¹³ Ibid

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

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

Developed Regions
 Emerging Regions

Source: Capgemini analysis, 2010

MOBILE PAYMENTS ARE GROWING, BUT ARE SO FAR USED MOSTLY FOR LOW-VALUE TRANSACTIONS

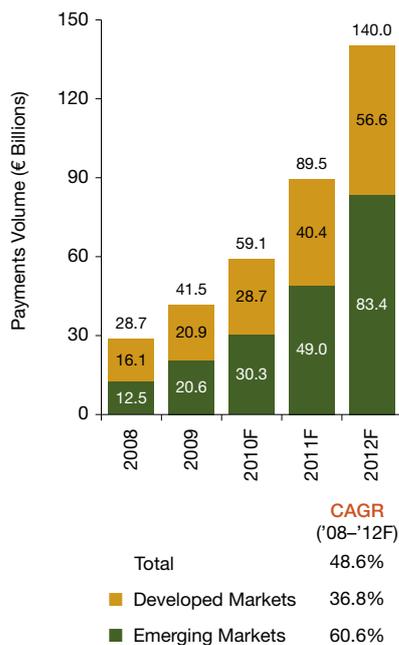
We estimate the value of global m-payments at €41.5 billion for 2009, and expect that number to grow to €140 billion by 2012 (see Figure 1.10), led by remittances and retail purchases in emerging markets.

Based on our estimates, m-payment schemes driven by alternative providers—especially telecom providers—conducted 156 million transactions in

2009, accounting for 5% of all m-payments (see Figure 1.11). That amounts to 0.05% of all non-cash payments transacted in 2009, a share expected to rise to 0.17% by 2012, which would equate to 8% of the m-payments market at that time.

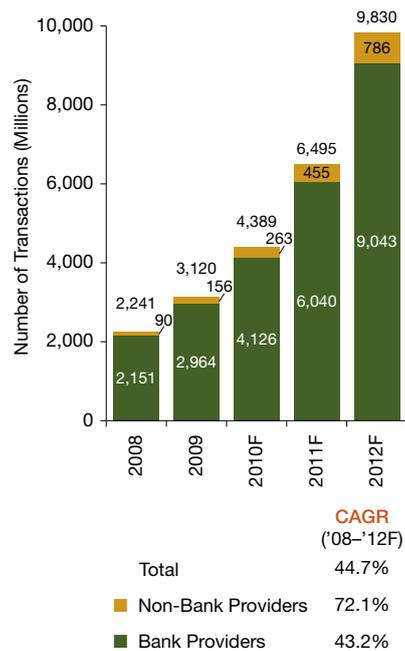
We expect m-payments usage in emerging markets to grow much faster than in developed economies, because the unbanked population is so large. As a result, emerging markets are expected to account for 59.6% of the total m-payments market in 2012 (vs. 51.3% in 2010), after sustained growth of 60.6% in 2008–2012.

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



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

Figure 1.11 Global Mobile Payments Number of Transactions (Millions), 2008–2012F



Note: (1) Non-bank providers numbers include mobile-operator-led payment schemes; (2) F represents forecast
 Source: Capgemini analysis, 2010; figures may not add due to rounding

For now, m-payments are largely used for relatively low-value transactions (although the actual amounts vary widely by country), and the underlying usage patterns are generally different in emerging markets than in developed ones.

In developed economies, m-payments are mainly tied to mobile digital content purchases (ringtones, pictures and entertainment information), and to an extent to mobile ticketing (tickets at terminals or retrieved on-site). In emerging markets, m-payments are mainly used in P2P payments and remittances (domestic and cross-border P2P fund transfers), resulting in a higher average transaction value.¹⁴

As m-payments expand in developed markets, they will (in the coming three to five years) complement rather than substitute for existing payment instruments and provide an alternative to cash payments. Mobile proximity purchases and airtime top-ups are expected to drive mainstream adoption of mobile purchasing. Near-field communication (NFC) technologies, in particular, offer a clear improvement over some existing payment methods, being simpler and faster than network-based short-message service (SMS; text-messaging) technologies, and even more convenient than using cash. However, proximity-payments usage cannot expand significantly until merchant infrastructures and mobile phones are more extensively NFC-enabled, probably sometime after 2011. Currently, to compensate for the lack of NFC infrastructure and enabled handsets, attention has moved from hardware to software, and from traditional telecom operators to new entrants offering solutions that allow consumers to pay with existing methods.

In emerging markets, mobile payments represent a cost-effective and sufficiently secure medium for various types and sizes of cashless payment transactions. However, workers' remittances, including cross-border remittances, are likely to be the strongest driver of growth in m-payment transaction volumes, given the substantial number of migrant workers seeking to return funds to their home countries as efficiently and cheaply as possible—and to recipients that may or may not have bank accounts.

In general, the m-payments market has significant potential in the medium to long term, but all stakeholders (mobile operators, banks, payment-card networks, merchants, and mobile device manufacturers) will need to co-operate to manage the economics of m-payments business models, manage the risks of each party, and deal with issues ranging from security concerns and know-your-customer (KYC) protocols¹⁵ to customer preferences.

E-PAYMENTS ARE GAINING MOMENTUM, WITH MANY ALTERNATIVE PROVIDERS SUCCESSFULLY FINDING A NICHE

We estimate the value of worldwide e-payments was €790.1 billion in 2009 and expect sustained growth of 19.6% per year in 2008–2012 to reach €1,382.3 billion in 2012 (see Figure 1.12). Alternative providers, leveraging economic and competitive opportunities in the payments space, are gaining momentum and are expected to increase their share of e-payments values from 9.3% in 2009 to 12.4% in 2012, potentially capturing revenues that would otherwise have gone to banks.

We estimate alternative providers processed around 1.6 billion transactions in 2009, which translates to 0.55% of the total non-cash payments market (see Figure 1.13). They are expected to process around 3.7 billion e-payment transactions in 2012, which would be 1.02% of the total. While this percentage remains small, alternative providers are expected to grow their share of e-payments volumes (in € billions) at a sustained rate of 29.3% a year in 2008–2012.

Notably, alternative providers are addressing specific market needs that are not served or are currently underserved by existing systems. Merchants, for example, are realising that by offering alternative payment options, they can lower their overall transaction costs, increase conversions and create new revenue streams—while reducing charge-backs and fraudulent activity. At the same time, consumers want merchants to accept their preferred payment methods, including those that are not currently covered by traditional payment methods.

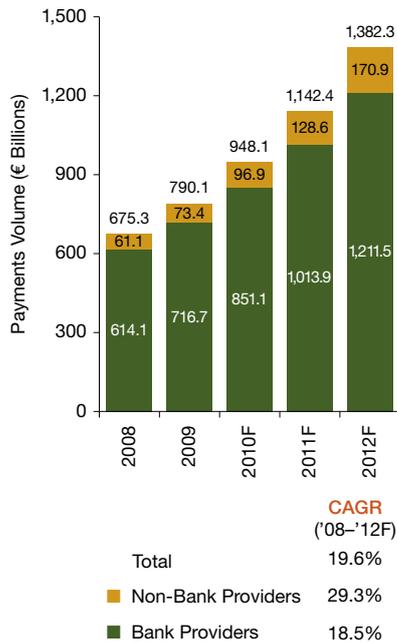
PayPal and Bill Me Later are prominent examples of the success of non-traditional payment systems that have emerged to usurp both revenue and market presence from financial institutions and associated network brands (see PayPal case study). PayPal even acquired a European banking licence, aiming to build on its success and prominence as an alternative payment option and reap the full benefits of providing traditional banking services to already loyal customers. New hybrids such as Google Checkout and an array of products and platforms from Amazon (for example) present an additional challenge to financial institutions, given their widespread adoption.

More than 30% of Europeans have used an online payments service for online purchases, and three-quarters of U.S. online buyers have an alternative payments account—of which 70% are active and used to make online purchases. In Asia-Pacific, countries with developed banking systems still tend to be highly

¹⁴ "US Mobile Payments", Forrester Research, June 3, 2008

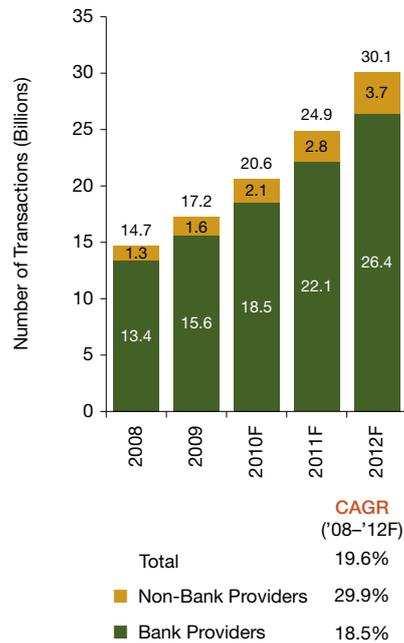
¹⁵ KYC protocols comprise the systems and procedures needed to properly identify customers to control fraud, money laundering and other illicit activity

Figure 1.12 Global Electronic Payments Market Volume (€ Billions), 2008–2012F



Note: F represents forecast
Source: Capgemini analysis, 2010; figures may not add due to rounding

Figure 1.13 Global Electronic Payments Number of Transactions (Billions), 2008–2012F



Note: F represents forecast
Source: Capgemini analysis, 2010; figures may not add due to rounding

dependent on cards (at least 75% of online customers in Japan and South Korea use a credit card,¹⁶ for example), although PayPal has a substantial presence in Australia. In mainland China, two-thirds of online consumers pay for their purchases using Alipay, the leading alternative payment system in the country.¹⁷

CONCLUSION

Banks have been well-positioned as trusted providers to both merchants and consumers, especially in developed markets where they typically have long-standing transaction- and account-based relationships. However, alternative providers have made significant strides in e-payments and m-payments. This shows there is significant opportunity for non-bank competitors, particularly when they demonstrate more flexibility, lower costs or more savvy applications than traditional bank providers.

Thus far, alternative providers still account for a small percentage of total worldwide non-cash transaction volumes (0.6%) and revenues, but their rate of growth is significant. The m-payments segment is a prime example of the competition for banks: mobile operators are in a better position to leverage emerging technologies, e.g. proximity

payments, and the mobile-device lifetime is fairly short (about two years). User-friendly mobile payments applications are widely available for smartphones (iPhone, BlackBerry, etc.), and are already enabling internet and phone-to-phone payments with little or no need for infrastructure upgrades or changes.

As a result, mobile operators and their partners can gain relatively rapid and cheap access to large customer bases, which can potentially be migrated to m-payments, starting first with low-value amounts. Alternative providers may also be able to extend their reach to target offline P2P and consumer-to-business payments—presenting banks with stronger competition.

Alternative providers face their own challenges in finding viable business models to monetise e-payments and m-payments on a broad scale. As they do so, banks should be formulating their own strategies for proximity and other e-payments—probably focussing first on mobile internet payments, since mobile broadband penetration, data application services and smartphone devices are all expanding rapidly. However, any player hoping to develop online P2P payments will need to be able to launch services quickly, navigate regulations and cater to an often fickle but tech-savvy user base.

¹⁶ "Understanding Online Payment Preferences in International Markets", Forrester Research, March 18, 2010

¹⁷ Ibid

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