

# Investor Scrutiny Provokes a Moment of Truth

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# Overview

**The payments industry has come a long way over the past decade—and in myriad directions! Consumers and companies have shifted from cash to a burgeoning array of electronic payments. Journeys have expanded from transactions to an integrated array of solutions and value-added services. Payments have become more accessible, with innovations such as digital wallets, QR codes, and mobile money accelerating financial inclusion in developing economies.**

These developments have propelled strong revenue growth and attracted more than 5,000 fintechs into the payments space. Looking ahead, however, the operating environment is likely to become more difficult, as valuations have dramatically declined over the past two years and the macro-environment has become more turbulent. Revenue growth is expected to slow over the next five years. Payments leaders can fight this trend and resume their strong historical growth by doing things differently—innovation avenues are numerous, and customer appetite for the industry’s solutions remains robust—but they will need to take decisive action now to do so.

This is a moment of truth for the industry. Change is exciting, but it’s also disruptive. BCG’s 21st annual Global Payments Report looks at the opportunities and challenges facing this diverse industry. We begin by offering a comprehensive market outlook, and then we take deep dives into four subsectors: acquirers, issuers, wholesale transaction banks, and payments infrastructure providers.

The throughline across our analysis is that institutions must put aside practices that no longer serve their stakeholders and instead must thoroughly modernize their technologies, techniques, and tactics. Those that undertake this work now can turn disruption into a source of long-term advantage.

# Ten Key Highlights



Total payments revenues grew at an annual rate of 8.3% from 2017 to 2022, taking the revenue pool to \$1.6 trillion at the end of 2022.



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



Revenue growth is likely to slow to 6.2% annually through 2027, with the revenue pool reaching \$2.2 trillion by then. Of this amount, transaction revenue from card and account-to-account payments rails is on track to grow by 7.1%. But nontransaction revenue from interest- and fee-based sources is likely to expand by just 5.7%.



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



Slowing revenue growth comes from an expected shift in the retail payments mix from cards to account-to-account transactions, along with compressed card margins in some markets. Contributing macroeconomic factors include cooling inflation and normalization in interest rates.



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



Total shareholder returns have plummeted. The top 20 largest payments companies saw their TSR drop by an average of 20% over the past two years. Acquiring and payments processing witnessed the sharpest declines, with TSR falling by roughly 40%.



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



Payments-focused fintechs now number more than 5,000 globally and account for about \$100 billion of total industry revenues. **By 2030, they could command a revenue pool worth \$520 billion,** intensifying competitive pressure on incumbents.



With disruption likely to intensify, leaders must refresh their strategy, revisit their partnership structure, and modernize their tech infrastructure. Safeguarding shareholder value and cost excellence will be key to preserving and growing shareholder value.



## Market Outlook

**T**he payments industry revenue pool expanded by 8.3% from 2017 to 2022 to reach \$1.6 trillion. (See Exhibit 1.)

Factors propelling this growth include the ongoing cash-to-noncash conversion, and a rise in nontransaction revenue such as deposit-related income. Adoption of digital commerce continues to accelerate, and this along with the expanding implementation of modern payments infrastructure also drove growth. Around the world, alternative payments methods (APMs) are enabling better and cheaper access to financial services—a virtuous cycle that generates more demand for payments solutions.

Latin America and the Middle East and Africa saw the fastest rates of regional revenue growth, but Asia-Pacific and North America continue to lead the world in overall size. Tailwinds are turning, however, and the next few years are likely to be more challenging for payments industry participants.

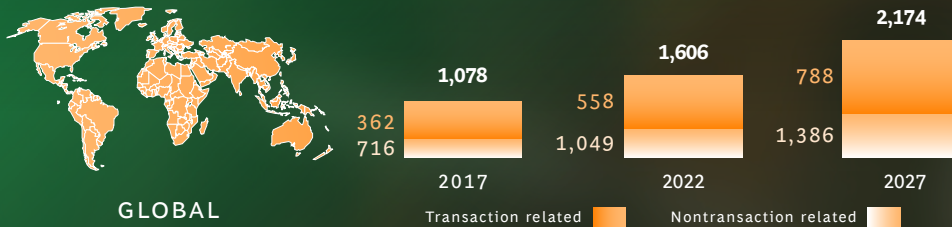
### **SLOWER GROWTH IS ON THE WAY**

Our estimates suggest that overall revenue growth will decline from today's levels to a CAGR of 6.2% from now through 2027, increasing the global revenue pool to \$2.2 trillion at the end of that period.

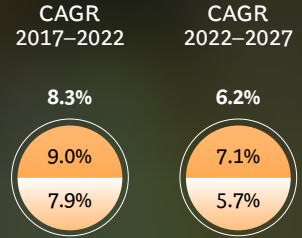
EXHIBIT 1

# Global Payments Revenues Reached \$1.6 Trillion in 2022 and Are Expected to Grow to \$2.2 Trillion by 2027

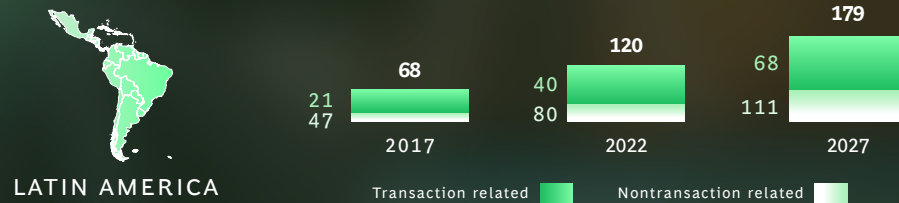
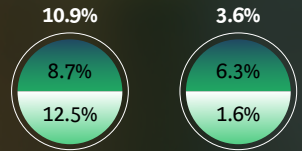
Revenue (\$billions)



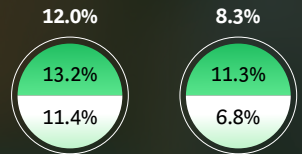
GLOBAL



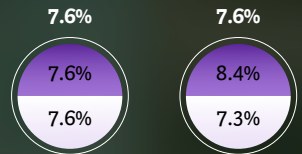
NORTH AMERICA



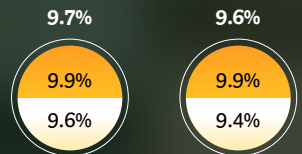
LATIN AMERICA



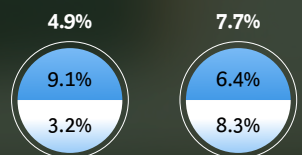
EUROPE



MIDDLE EAST AND AFRICA



ASIA-PACIFIC



Source: BCG Global Payments Model 2023.

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

Transaction-related revenue is likely to grow by 7.1% through 2027, a drop of 1.9 percentage points compared to the five years from 2017 to 2022. One reason for the decline is a shift in the payments mix, with the dollar value of transactions from retail account-to-account (A2A) payments, which carry a lower yield, expected to outpace that of cards through 2027 (with a CAGR of 11.7% versus 6.8%). Another is that intensifying competition and more stringent regulations are compressing card margins in some markets. And a third reason is that inertial growth in cashless payments is likely to taper as cash-to-noncash conversion reaches maturity in some advanced markets.

Nontransaction-related revenues will see a steeper decline in growth. From 2022 to 2027, they are likely to grow by 5.7%, well below the prior five-year CAGR of 7.9%. Card loan volumes are likely to feel the effects of rising interest rates, with lending-related income expected to fall to 3.4% over the next five years.

Although deposit balances grew by 10.9% from 2017 to 2022, they will probably grow by only about 3.5% from 2022 to 2027. Driving this likely slowdown is a shift in balances from demand deposit accounts to higher-yielding alternatives such as term deposits, saving deposits, and money market funds. As a result, total revenue growth from deposit-related activities will average only about 7.1% over the next five years, significantly less than the prior five-year average of 10.2%. And with interest rates expected to peak in 2023, margin expansion will be limited.

### THE COMPETITIVE GROUND IS SHIFTING

Companies across the payments industry face a host of disruptions that will challenge even the most experienced. Sources of disruption include the rapid growth of real-time payments (RTP) and value-added services (VAS) and the commoditization of pure payment processing.

New entrants' steady expansion into payments is another disruptor. Over the past few decades, **fintechs have exploded onto to the payments scene**. More than 5,000 of them now operate in the payments space globally—accounting for about \$100 billion of total industry revenues. Our data projections suggest that these businesses will continue to take share from incumbents across the payments industry and command a revenue pool of up to \$520 billion by 2030.

Boundaries between different payments sectors continue to blur, and new business models such as payments-as-a-service are emerging. In addition, nonbank players are beginning to offer embedded finance (solutions that integrate financial services into customer journeys and workflows), encroaching on territory that traditional financial institutions once dominated.

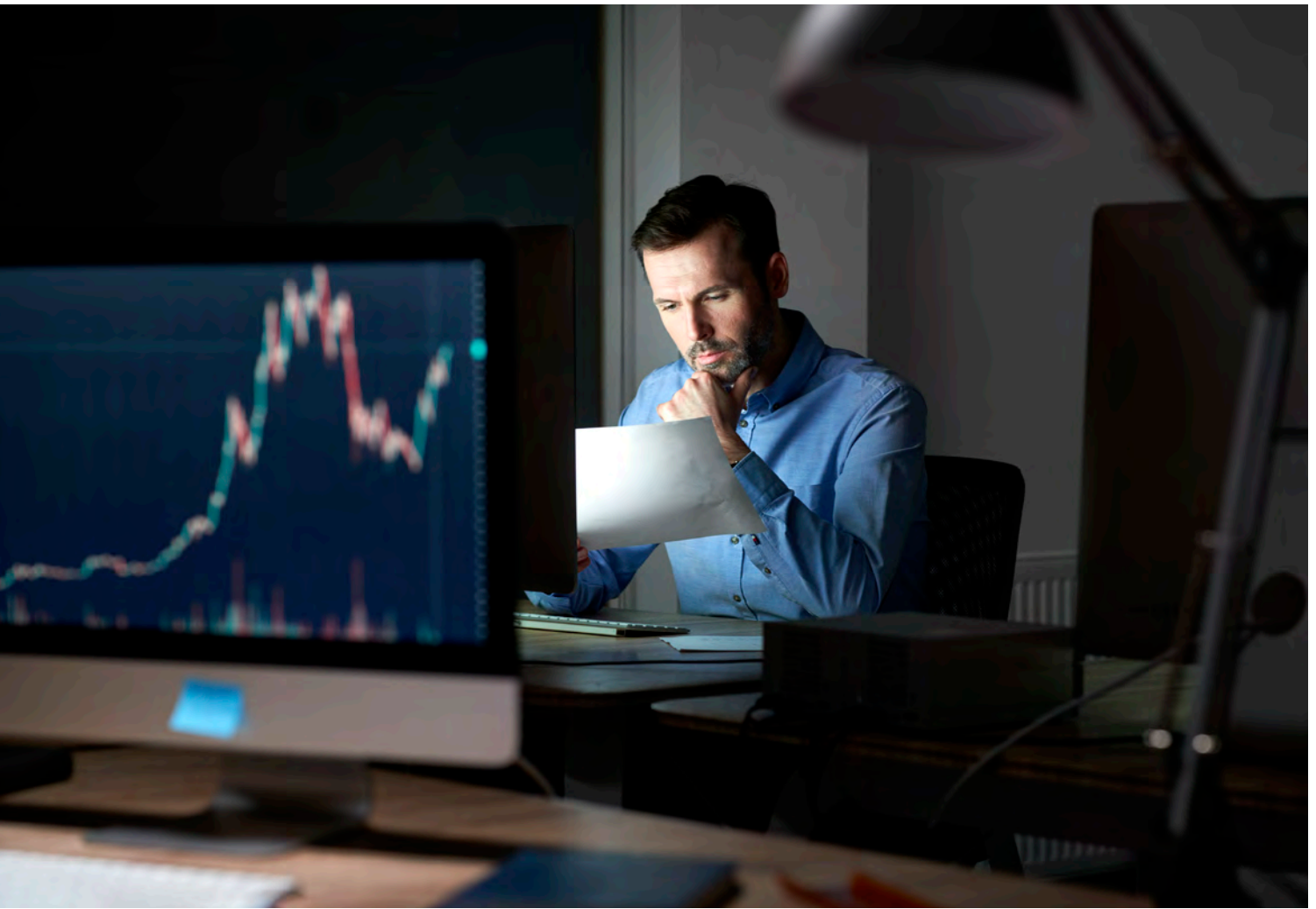
This shift from transaction-related to nontransaction-related revenues gives specialists in RTP, VAS, and embedded finance considerable advantage. Payments providers that can support consumers, merchants, and corporations with tailored services will be able to seize a large share of the future revenue pool. BCG research has found that **platforms that include embedded finance are revolutionizing small-business banking**.

### TECHNOLOGY AND PROCESSES ARE UNDER STRAIN

A massive modernization of the global payments infrastructure is underway. RTP systems, new data standards, central bank digital currencies, and new technologies such as generative AI (GenAI) will create massive opportunities. But they will also create upheaval. To stay competitive, banks and other traditional payments players must accelerate their move to cloud infrastructure and embrace modular, scalable payments platforms that can integrate into third-party software and systems. Attracting the right talent—software developers, designers, and data scientists—is essential, as is the ability to adopt modern engineering techniques such as DevOps and agile ways of working.

Finally, but no less consequentially, the regulatory environment is becoming more stringent. Many institutions face new or stepped-up requirements, and nonbanks in particular must professionalize their risk and compliance functions to keep pace.

**T**his is the time to act. Leaders can continue to deliver strong operating growth and shareholder value despite the ongoing disruptions in the payments ecosystem. But as this report outlines, they cannot do so without committing to deep changes.



# Four Topics Shaping the Leadership Agenda

The economic outlook may be uncertain, but winners can turn ambiguity into opportunity by identifying performance levers that enable them to punch above their weight. Our analyses indicate that four areas should top the leadership agenda: operational resilience, GenAI, risk management and compliance, and mergers and acquisitions.

## **SAFEGUARDING SHAREHOLDER VALUE**

Payments providers have achieved generally solid operating performance over the past 24 months. Average net revenues for a global sample of 20 top publicly listed large issuers, acquirers, payments processors, and card schemes rose by around 7.5% from 2021 to 2023.

Nevertheless, BCG analysis shows that investors have become more circumspect. After a decade of rising valuations, total shareholder returns (TSR)—defined as capital gains plus dividends—have been on a downward trajectory, falling by 20% from 2021 to 2023. Subsectors such as acquiring and payments processing witnessed the sharpest declines, with average TSR falling by roughly 40% over this period.



To shore up shareholder returns, payments companies need to understand what is driving value creation at a granular level and then create an integrated business, financial, and investor strategy. From 2016 to 2021, for instance, revenue growth fueled 55% of the industry's TSR growth of 15%, followed by economic value/EBITDA at 31%. We expect revenue creation to remain an important investor criterion. In light of that, payments companies need to have a sharper strategy to ensure they can win with segments they care about, along with faster execution to capture those opportunities.

Increasing TSR will also depend on achieving operational excellence and strong cost performance. Companies must redesign customer journeys to remove pain points, and they must automate, simplify, and modernize underlying technologies as much as possible. Efficiency reviews should encompass vendor sourcing, contact and call center efficiency, and workforce management.

### GENERATIVE AI

The launch of ChatGPT and the press echo that it received catapulted GenAI to the forefront of nearly every major business conversation. And OpenAI gained 100 million users in just two months. Although the technology is still nascent, the impact of GenAI on specific payments operations could be profound. Our analysis suggests the use of GenAI in product development alone could boost productivity in multiple stages by more than 20%. (See Exhibit 2.)

Some leaders are already starting to experiment. American Express is employing GenAI to speed product development time, and Visa and Mastercard are using it to augment the company's fraud detection capabilities. Klarna is working with OpenAI to launch a new personal shopping assistant, and Stripe is using it to create a support documentation guide on its developer portal.

GenAI could become a major source of competitive differentiation in the years to come, but strong governance is essential. Leaders must establish an effective collaboration model to oversee initiatives throughout the company, validate use cases, and manage pilots. Because demand for GenAI skillsets is likely to be sky high, companies must also be resourceful in acquiring critical talent. Payments leaders should not ignore traditional data analytics and AI applications either. Although many companies have begun to use machine learning to enhance transaction monitoring and fraud management, most are still only at the cusp of doing so. Across the payments industry, leaders have multiple opportunities to use AI and real-time data management to introduce new, data-driven VAS.

### RISK MANAGEMENT AND COMPLIANCE

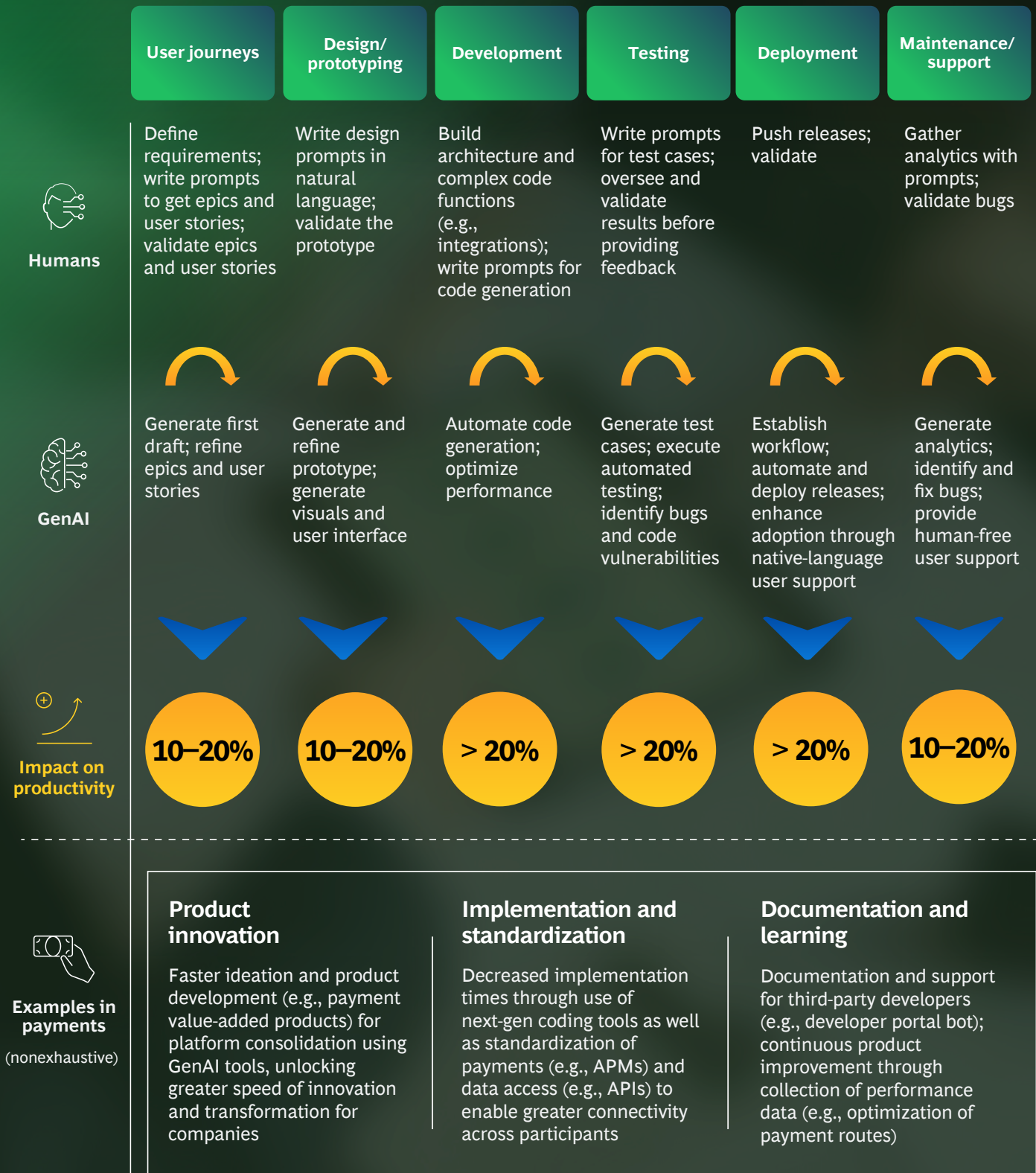
In the wake of past misconduct and noncompliance by some payments institutions, regulatory authorities are taking a tougher stand—especially in Europe. Supervisory bodies in the region are looking at a broader set of risk types, including financial crime, cybersecurity, data security, fraud, liquidity, and credit risk, and they are intensifying and harmonizing regulations.

Enforcement is accelerating, too. Supervisory authorities are conducting more audits, including on-site visits, to assess whether companies are adequately implementing regulatory requirements. Collaboration is increasing as well. For example, regulators in Europe are exchanging information with other supervisors across the region, making weaknesses or noncompliance findings more readily accessible to national authorities. Globally, in cases of misconduct and noncompliance, regulators are imposing stricter penalties that can carry significant financial and reputational consequences for payment providers. In response, we recommend that payments players do the following:

- **Make risk management and compliance a C-suite-level agenda item.** Payments companies must ensure strong senior management engagement on risk and compliance. C-suite-level leaders should engage actively on the topic in their boardrooms and across the organization.
- **Conduct a brutally honest self-assessment.** Now is the time for leaders to perform a comprehensive health check to assess their current risk management and compliance capabilities. It is far better for institutions to discover and correct gaps in their risk and compliance processes now than to have regulators cite them later.
- **Think two steps ahead.** Leaders need to anticipate where the regulatory landscape is most likely to shift. This task entails reviewing legislative proposals and influencing discussions among supervisory bodies, central banks, and other relevant authorities.
- **Understand how risk management can enable business.** Upgrading risk and compliance practices can reduce harmful exposures and generate business opportunities. For example, approximately 15% of acquiring volume today is in new verticals. (See Exhibit 3.) Getting risk management practices right can help leaders gain share in these (often margin-attractive) segments.

EXHIBIT 2

# GenAI Could Bring Seismic Changes to Product Development



Source: BCG analysis.

- **Optimize the risk management and compliance operating model.** To optimize their risk and compliance practices, organizations must future-proof their operating model. Doing this involves creating a global coordinating function to oversee risk management practices across the business and all jurisdictions, since most payments players operate across multiple jurisdictions. Leaders must also possess a clear understanding of the organization's risk appetite and enable a 360-degree view of customers across all products. Other elements of future-proofing include establishing a fully scalable compliance management system to support electronic transaction volume growth, devising holistic end-to-end risk management and compliance processes that span all three lines of defense, and adopting a modern tech and data architecture.

## MERGERS AND ACQUISITIONS

The payments M&A market and payments fintech funding are both under pressure. Aside from Stripe's recent deal, equity funding in the payments fintech sector dropped to \$1.5 billion as of the first quarter of 2023, and it fell to \$1.4 billion in the second quarter of 2023—significantly lower than the \$5 billion to \$8 billion per quarter during 2021 and through the first half of 2022. (See Exhibit 4.)

While most private equity investors are waiting on the sidelines to see whether valuations have bottomed out, strategic investors remain active. And those looking will find no shortage of promising investment opportunities. Across industry verticals, underlying growth drivers remain intact. These include the ongoing cash-to-noncash conversion, the rise of APMs, and the increasing integration of payments into software. Corporate, small-to-midsize enterprise (SME), and digital retail segments could all see attractive revenue growth of 10% or more annually over the next five years.

Although M&A continues to be an important driver of value creation, activity is shifting from megadeals to capability-led moves, with a particular emphasis on APMs, integrated software vendors, VAS, and loyalty programs.

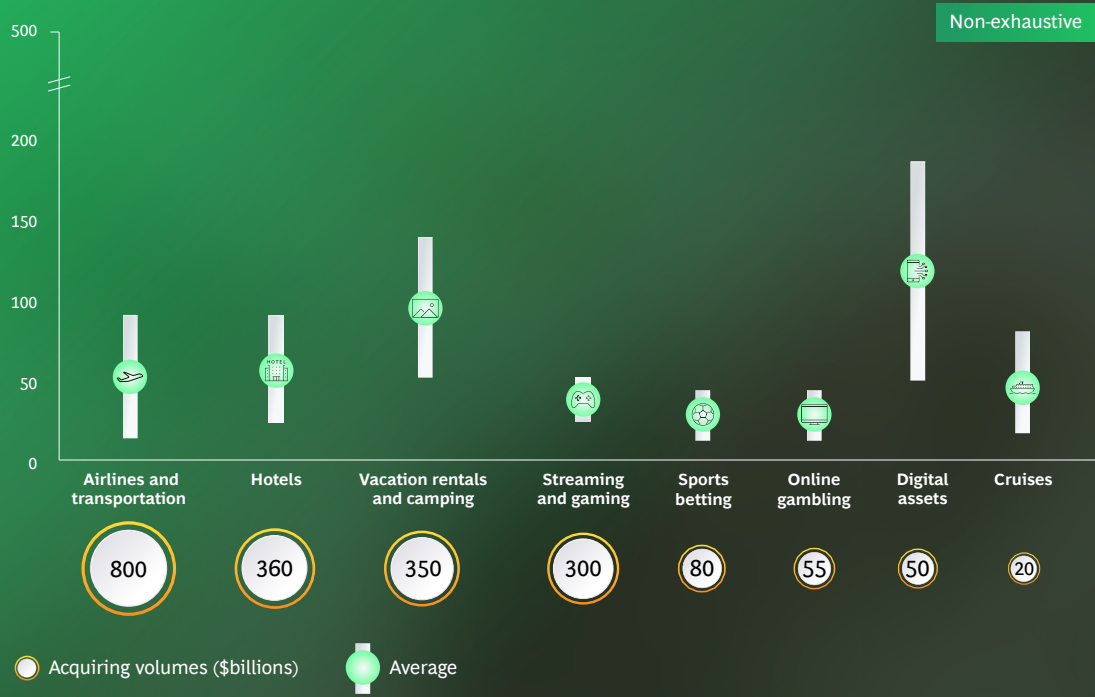
Competition for the most desirable targets will be strong. Different payments segments have different risk profiles, and corporate and institutional investors will need to sharpen their deal sourcing and due diligence practices to account for these. Integration speed is also essential. Leaders must design the target operating model of the combined entity from the start and must develop a joint business plan to deliver revenue and cost synergies. Setting up a rigorous postmerger integration program is important, too. This program can help manage the various layers of change globally, from organizational and cultural integration to stakeholder communication to key talent retention.

EXHIBIT 3

# New Verticals Can Be an Attractive Playing Field



Take rate (basis points)



- Compared to the acquiring industry average, **new verticals** are...
- ...growing **50% faster** (by volume)
- ...generating **2X higher** take rates
- Together, they account for approximately **15% of acquiring volumes** today

Source: BCG Global Payments Model 2023.

Note: BCG's Global Payments Model 2023 does not include closed-loop intrawallet transactions, cash withdrawals from ATMs, trade finance revenues, and mobile money transactions. All forecasting is done at a constant foreign exchange rate. "Take rate" is defined as transaction margins for acquirers. "Acquiring volumes" are defined as consumer-to-merchant payments at offline/e-commerce, including all payment methods (e.g., cards, alternative payments methods, and e-wallets). Data is for the year 2022. Bubble size is not to scale.

EXHIBIT 4

# Deal Volumes and Funding Have Slowed During the Past Four Quarters

Quarterly number of deals and equity funding raised (\$billions)



Source: BCG FinTech Control Tower.

Note: Funding data excludes Ant Financial, Du Xiaoman Financial, and JD Digit funding rounds. M&A and IPO funding are excluded.

<sup>1</sup>Megadeals are individual funding rounds that equal or exceed \$100 million.



# Survival of the Fittest in Merchant Services

**B**ehind the curtain of an overall attractive market segment, the merchant acquiring business is being convulsed. Changes affect every layer of the merchant services stack. For incumbents—banks and payment monoliners—adapting to these realities is not just smart business. It’s a matter of survival.

## **ACQUIRING COULD SOON BE A \$100 BILLION MARKET**

We expect revenue for the acquiring industry to rise by 6.9% annually over the next five years, taking the global revenue pool to \$100 billion by the end of 2027. (See Exhibit 5.) SME merchants with fewer than 250 employees make up 70% of the revenue base today and that share could increase. Online sales—payments initiated online or over mobile devices—have been a major driver of revenue growth, and our outlook suggests continued growth of 9.9% annually through 2027.

Digital natives (such as Adyen, Checkout.com, and Stripe) and ISVs (such as Toast and Square) are winning a growing share of the acquiring market. Three years ago, these players accounted for roughly 35% of acquiring market revenues in North America and Europe combined. Today that figure has increased to 40%. And momentum is in their favor. Augmenting their traditional strength in the SME space, digital natives are now gaining share in the corporate segment globally. In Latin America, incumbents face challenges related to advances in real-time-payments. In Asia, widespread use of social commerce and greater integration of payments capabilities into social networks and digital media pose disintermediation threats. In Africa, the rapid growth of mobile payments is drawing share away from traditional acquirers.

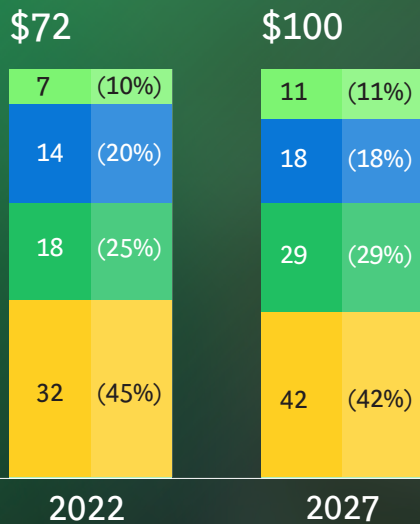
EXHIBIT 5

# Global Merchant Acquiring Revenue Will Reach \$100 Billion by 2027

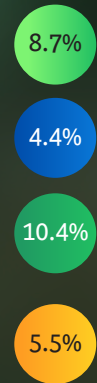


Revenue (\$billions)

- Large companies: online<sup>1</sup>
- Large companies: offline
- Small to midsize enterprises: online<sup>1</sup>
- Small to midsize enterprises: offline



CAGR  
2022–2027



Source: BCG Global Payments Model 2023.

Note: BCG's Global Payments Model 2023 does not include closed-loop intrawallet transactions, cash withdrawals from ATMs, trade finance revenues, and mobile money transactions. All forecasting is done at a constant foreign exchange rate. Merchant size definitions are based on OECD definitions (small to midsize enterprise = 0–249 employees; large company = 250+ employees). Totals may not add up due to rounding.

<sup>1</sup>Online comprises all payments initiated online or via mobile device (i.e., all payments not made physically in-store).

## DISRUPTION ACROSS THE STACK

Competitive pressures and technological advances reveal where the future of acquiring is heading.

### **Acquirer-merchant disintermediation is accelerating.**

In most developed countries, more than 50% of SMEs now use software platforms for their day-to-day operations. That penetration gives digital natives and ISVs a significant tailwind. The integrated payments solutions that these challengers offer are likely to grow at twice the rate of incumbent acquirer revenues in the US. And a similar pattern is expected to develop in other regions. Disintermediation is occurring outside the SME segment, too, driven by a growing need for payments orchestration, especially among large, international merchants, which often rely on five or more payment services providers. Some merchants with complex payments flows, such as the online marketplace Backmarket, are taking on the orchestration task themselves, using a mix of in-house and externally sourced capabilities. For acquirers, payments orchestration represents both a new disintermediation risk and an opportunity to compete on objective performance criteria.

**The product universe is expanding beyond acquiring and payments.** The rate of product development, especially in embedded finance, is soaring. BCG survey data shows that **64% of merchants** want solutions that they can plug into their existing business operating systems. To answer that call, merchant services are expanding their product set—and in the process, moving deeper into financial services. This year, for example, both Adyen and Square announced plans to release new embedded finance features. Other acquirers are likely to try to match these moves, and this competitive race will fuel continued portfolio growth.

**Merchants want simple front-to-back journeys—and challengers are delivering.** Time-consuming setup processes and unclear pricing rank high on the list of merchant pain points. (See Exhibit 6.) Spying an opportunity, some digital natives have made easy setup a differentiator. Stripe's onboarding process, for instance, requires only four inputs from merchants. Its platform provides merchants with a single dashboard for reviewing and managing customer disputes, and automated processes simplify chargeback handling for merchants. Enhancements like these put pressure on incumbents to improve the quality of their customer journeys.

**Fragmented tech is a growth killer.** After years of M&A-driven growth, many established players juggle multiple platforms and databases. This complexity introduces risk and makes incumbents less competitive. In many cases, digital natives have a single harmonized payments platform that can grow with their business, whereas incumbents may have to implement new product features across multiple platforms. As a solution, GenAI could help incumbents harmonize by refactoring coding for different platforms, synthesizing documentation, and supporting product and engineering teams. But such technologies are new, and these approaches will need time to deliver proof of concept.

## INCUMBENTS CAN MEET THIS MOMENT

With the right moves, incumbent acquirers can emerge stronger than ever and capture growth in a vibrant and fast-growing market. Here are four recommendations for ambitious players to consider.

**Lean into differentiating services.** Many products once considered value-adding have become table stakes. These include self-service-driven merchant onboarding, reliable payments acceptance across channels and devices, locally relevant payments methods, efficient dispute and chargeback handling, fraud prevention tools, and data analytics services. Meanwhile, differentiating VAS opportunities are emerging in digital marketing and loyalty management and in embedded finance.

In digital marketing, merchants need to develop hyperpersonalized communications and loyalty offerings to increase customer frequency, shopping basket size, and wallet share. Incumbents can help merchants devise these offerings by providing platforms to manage customer and transaction data and by providing analytics that model behavior in these areas.

Embedded finance solutions can also create attractive fee- and interest-based revenue streams by providing merchants with business accounts, (virtual) commercial cards, and working capital solutions—all of which are conveniently integrated into ISV platforms. However, they require more sophisticated risk management practices, either internally or through partnerships, to evaluate credit risk and to control merchant default rates in the current challenging business environment.



EXHIBIT 6

# The Payments Setup Process Is Riddled with Pain Points

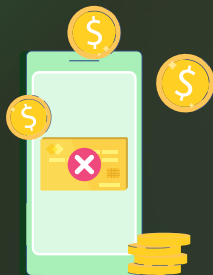


## RESEARCH AND SELECTION

- ⚠ Lack of price transparency and tools to understand cost of acceptance
- ⚠ Unclear timelines and cost associated with switching acquirer

## APPLICATION AND APPROVAL

- ⚠ Long application—50% more fields than best-in-class processes
- ⚠ Multiple touchpoints—for example, often requires visiting branch to complete application



## PAYMENTS SETUP

- ⚠ Limited digital self-service capabilities
- ⚠ Hard to migrate data and reintegrate with software platform if switching providers
- ⚠ Lack of training tools



## SETTLEMENT AND RECONCILIATION

- ⚠ Lack of fee transparency can create unpleasant surprises
- ⚠ Manual reconciliation is time-consuming and complex



**Reimagine journeys from end to end.** To compete with the experiences that digital natives offer, incumbents should redesign their merchant journeys front to back—linking customer experience improvements to back-end operations, automating essential processes, eliminating unnecessary ones, and making select technology upgrades that deliver tangible business and customer outcomes. BCG client experience suggests that a well-conceived front-to-back redesign can boost acquirer revenues by 2% to 3%, cut onboarding costs by 5% to 20%, and lift net promoter scores by 15 to 30 points.

To start, we recommend focusing the redesign effort on four main areas:

- **Accept payments**—the steps merchants take when selecting a payments provider and opening their account.
- **Handle disputes and chargebacks**—the steps merchants take to resolve customer issues.
- **Service day-to-day operations**—the steps merchants take to mitigate fraud management, ensure compliance, and address failed payments.
- **Grow the business**—the steps merchants take to gain scale, including invoicing and billing, payroll and labor, inventory, and loyalty management.

**Future-proof your technological platform.** Established acquirers need to consolidate their platforms to achieve scale, speed time to market, and provide integrated support to large digital-native merchants. This is a complex, multiyear, resource-intensive process. But incumbents can realize immediate benefits by modernizing their tech and data capabilities. (See the sidebar “JP Morgan’s Tech Transformation Is Paying Dividends.”) Examples include acceler-

ating the move to the cloud to permit faster product deployment and updating application programming interface (API) strategies to simplify integration of services into third-party software and digital ecosystems. AI and GenAI can help incumbents further modernize their tech stack. Tailored business reporting, enhanced fraud monitoring, and more responsive call center processes are among the use cases that incumbents should begin testing and scaling.

**Beat disintermediation through M&A and partnerships.** The recent pause in megadeals is no excuse for complacency. Given the expansion of merchant services, incumbents must step up their partnership and M&A strategies. In addition to scale consolidation plays, strategies include combining product capabilities into an integrated value proposition. For example, Deutsche Bank and Fiserv built the joint venture Vert to make payments acceptance and banking services available to SMEs in an integrated product offering. Another approach is to combine product and distribution capabilities. Worldline’s partnership with Credit Agricole Group combines Worldline’s strengths in in-store and online payment acceptance with Credit Agricole’s distribution capabilities in the French market. Incumbents can also buy tuck-in capabilities. For instance, JP Morgan purchased WePay to gain online pay-fac (payments facilitator) enablement. Finally, incumbents can seek to become vertical payments champions. Nexi’s recent acquisition of Orderbird, a restaurant software company, is one such example.

We recommend that a company’s strategic leaders establish a dedicated task force to manage the M&A and partnership program. Coordination with technology and business teams is key. The task force can perform this steering function and work across the organization to map needed capabilities, identify potential partners and targets, and support technical and business integration once the deal is closed.

# JP Morgan's Tech Transformation Is Paying Dividends

By overhauling its technology foundation, JP Morgan is meeting disruption head on. The improvements, which began about five years ago, are helping this payments industry veteran capture higher margin opportunities and compete more effectively across the value chain. The transformation covers four main areas:

- **Modernizing the Core.** To ensure greater resilience, JP Morgan fortified its payments rails, including card and noncard. It acquired the cloud platform Renovite Technologies to help create a unified horizontal layer that can support use case deployment and faster product development.
- **Meeting Clients Where They Are.** Through acquisitions such as WePay and InstaMed, JP Morgan has invested in payments capabilities that provide the full stack solution or that can be integrated into vertical software, recognizing that an increasing number of clients are adopting platform solutions.
- **Expanding the Product Offering.** JP Morgan launched its Payments Partner Network to provide clients with a continually refreshed portfolio of offerings. Developed in partnership with Salesforce, the cloud-based network serves as a one-stop source for embedded finance solutions and includes offerings from JP Morgan and various third parties.
- **Instilling a Product-Led Culture.** Product management is front and center of the transformation. JP Morgan appointed a senior product leader with an engineering background to head the effort. This team took a targeted approach, focusing on solving customer pain points one by one and employing cross-functional teams to increase the velocity of product releases.





# The New Fundamentals for Issuers

The growth wave that issuers have long been riding is breaking, and catching the next one will require repositioning. However, companies that refine their practices can fend off disruption and secure their future footing.

## THE DAYS OF EASY GROWTH ARE OVER

Globally, from 2017 to 2022, revenues for issuers rose at a CAGR of 8.1%. Much of this growth came from the continued embrace of cashless and card-based payments. Across major markets, steady economic growth and a low interest-rate environment helped drive high levels of employment, contributing to a healthy credit picture and the lowest delinquency rates in 30 years. But the going is likely to get rougher over the next five years. Overall, we expect issuer revenues globally to grow by a CAGR of just 5.5% from now through 2027. On the one hand, macroeconomic

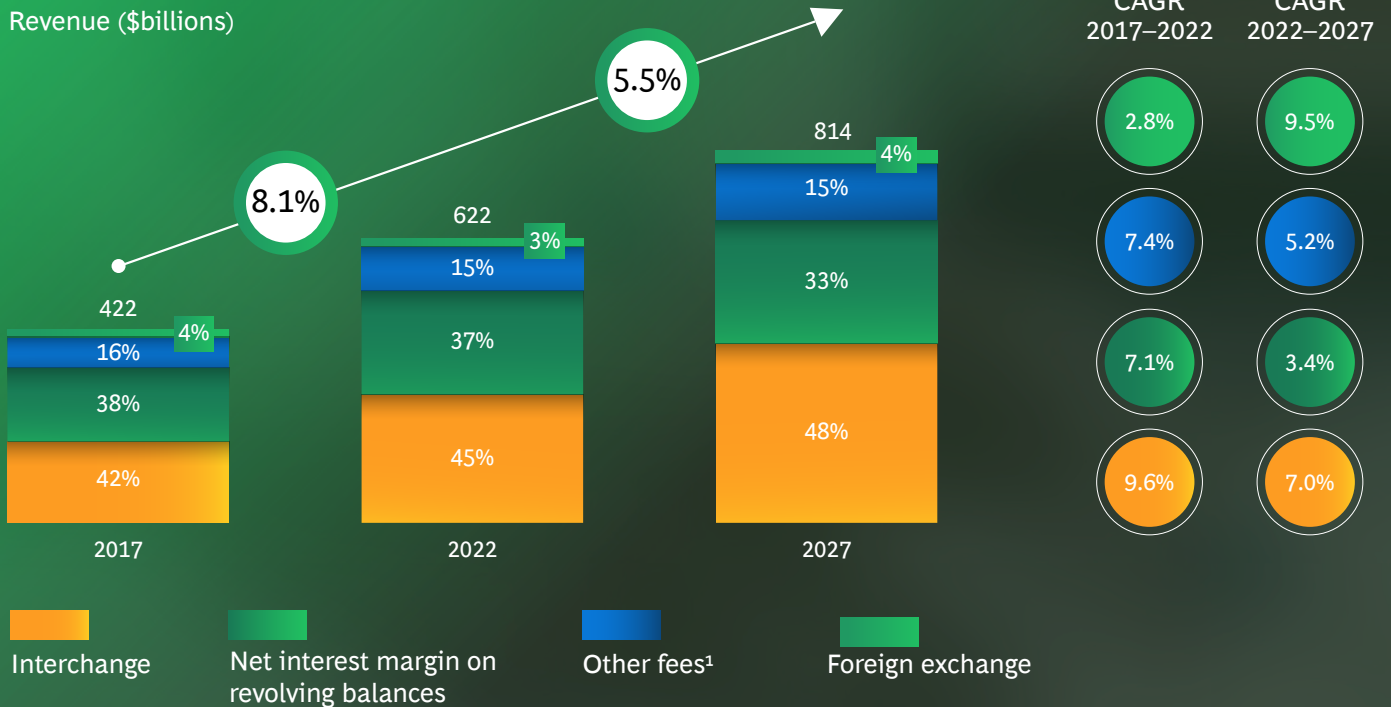
uncertainty may reduce consumer spending. On the other, high interest rates will continue to slow demand for credit. Our projections suggest that several key revenue components will come under pressure. (See Exhibit 7.) Interchange fees are likely to grow at a more modest rate of 7.0%, through 2027, down from 9.6% over the past five years. Net interest revenue growth on revolving balances is likely to plummet further, tumbling to 3.4%. On the plus side, foreign exchange fees seem poised to more than triple, jumping to 9.5% as travel recovers from pandemic lows. This income, however, accounts for only a small part of total revenues.

EXHIBIT 7

# Issuers Will See Slowing Revenue Growth in Key Areas



Revenue (\$billions)



Source: BCG Global Payments Model 2023.

Note: BCG's Global Payments Model 2023 does not include closed-loop intrawallet transactions, cash withdrawals from ATMs, trade finance revenues, and mobile money transactions. All forecasting is done at a constant foreign exchange rate.

<sup>1</sup>Other fees include annual membership fees, penalty on late payment fees, etc.

Regulatory action on late fees could compress margins further. In the US, the Consumer Financial Protection Bureau has proposed a rule that would reduce the fees that payments companies can charge to consumers for missing payments on credit cards. And the Credit Card Competition Act would require large banks to give merchants a choice of at least two different payments networks to process credit card transactions.

### CHANGE IS COMING FROM ALL SIDES

A more challenging macroeconomic environment, in combination with an accelerating industry transition, raises the stakes for issuers.

**Credit risk is escalating.** A softening economy could weaken the quality of the lending pool, broadening default exposure. And a recessionary environment could create financial challenges for issuers, since BCG research shows that consumers typically deprioritize credit card payments relative to other obligations when they are in financial distress.

**Software innovation is forcing new forms of collaboration.** As ISV platforms gain market share, traditional payments players will have to partner with these businesses to access SMEs. ISVs are also beginning to offer a broader array of financial solutions—and business customers have responded enthusiastically. BCG survey data suggests that 60% to 70% of SMEs in major markets would consider a debit or credit card offer from their software provider. Toast already offers a restaurant debit card, and other ISVs are likely to develop their own industry variants. Software innovation isn't solely a disintermediation lever, however. As the tech stack opens up, infrastructure specialists are emerging with capabilities that can help traditional issuers gain market advantage and manage parts of their business more cost effectively. This new wave of service providers includes issuing processors, loyalty experts, debt collection enablers, and other niche players.

**Loyalty is up for grabs.** As competition intensifies, issuers must work harder to engage and retain customers. Some large issuers are responding by expanding their commerce capabilities. Capital One launched a free browser tool that allows consumers to see which stores offer the best prices for the products they're searching for online. Others, such as Chase and Amex, are doubling down on travel and entertainment. For example, Chase recently acquired two travel management businesses, CXloyalty and Frosch, to scale its rewards and partnership offerings and provide richer travel recommendations to both business customers and individual consumers. These investments have helped Chase become a major travel player, with \$8 billion in bookings in 2022 and more than 2 million unique users.

### IT'S TIME FOR ISSUERS TO PREPARE FOR THE NEXT WAVE OF GROWTH

Change can be unsettling. But issuers have demonstrated their resilience during the crises of the past few years, and with the right focus they can emerge stronger than before. To thrive in years ahead, leaders must embrace the new fundamentals of issuing.

**Become a tech- and data-led issuer.** As the trends discussed above make clear, issuing has become a tech- and data-driven business—and there's no going back. But overhauling core processes is not a simple journey. Rather than rushing into a "change everything" agenda, issuers should focus on acquiring capabilities that can help them build competitive advantage quickly. These may include multichannel orchestration, embedded finance, and data-as-a-service. Each of these capabilities will require specific tech and data investments. For example, issuers pursuing a data-as-a-service business such as an audience network offering will need to build data integration tools to handle comprehensive data ingestion, replication, and load management, as well as processes to help product and marketing teams create a single view of the customer. By starting in a focused manner and expanding tech and data capabilities from there, issuers can manageably accelerate their market innovation.

**Boost marketing efficiency by embracing agile.** Deployed effectively, agile work practices can reduce campaign development times from months to weeks. In addition to promoting superior marketing efficiency, agile practices can optimize media spending, ensuring the deployment of resources in areas likely to generate the strongest returns. Strategic tech solutions can enable marketers to segment customers automatically in a self-serve fashion. They can also support cross-channel journey orchestration and permit simple, ongoing reporting. Done right, these improvements can help issuers speed cycle times by 60% to 80% and improve conversion rates of product offers by 20% to 30%.

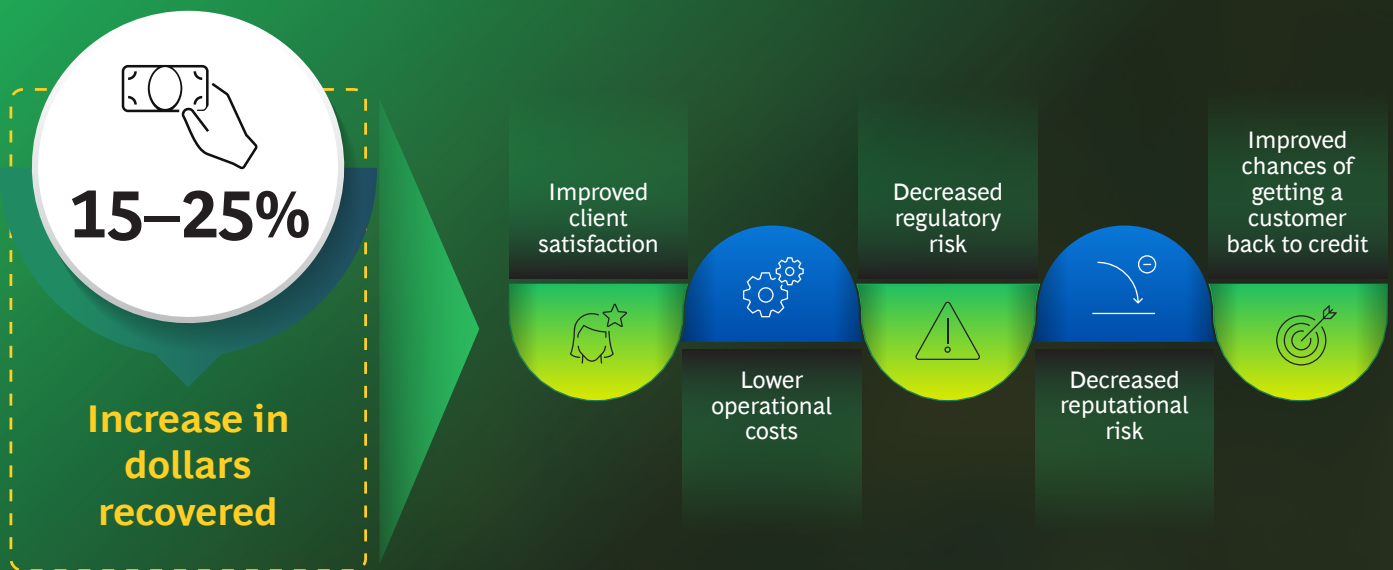
**Leverage M&A and partnerships to retool loyalty.** Our research indicates that leaders see personalization as a key lever for driving revenue growth. But only 15% of financial services firms that BCG surveyed view their capabilities in this area as more than basic. Partnering with infrastructure specialists can be an effective way to gain precision marketing capabilities. Banyan, for instance, specializes in providing purchasing data at the item level (commonly referred to as the SKU level), which issuers can use to design hyperpersonalized embedded rewards and card offers, thereby improving customer value and directing more traffic to co-brand partners—a win-win. Issuers that ramp up their deal-sourcing practices now will be able to move quickly when opportunities arise, and competition for some of the most promising infrastructure partnerships is likely to be intense.

**Cultivate corporate payments solutions.** B2B payments is a large and growing market—and more nontraditional issuers are recognizing its potential. Recently, Sodexo carved out its business's benefits and rewards unit, rebranding it as Pluxee, and SEB Kort acquired AirPlus payments. Traditional issuers can participate in this growth, but they must expand their product portfolios in order to do so. Success will require robust offerings for buyer- and supplier-initiated flows, and those offerings will have to accommodate a variety of payments methods, including virtual cards, Automated Clearing House (ACH) payments, and data-enriched ACH+ payments. Given the nature of corporate payments processes, integration into procurement and enterprise resource planning platforms is essential. One effective way for issuers to accomplish this is through co-investment with procurement platforms. Issuers must also secure a dedicated marketing budget to create channel awareness and build their sales and technical capacity to support product onboarding into platforms.

**Reduce delinquencies and their impacts.** To prepare for a potential increase in delinquency volumes, issuers should take three steps. First, at the predelinquency stage, issuers should harness data that can identify troubling customer behaviors such as changes in autopay arrangements, dips in discretionary spending, and lower-than-average checking balances. They can then segment customers by risk, with the goal of flagging vulnerable customers a month before they are likely to default. Second, issuers should ensure that they can offer digital self-service support. Our research suggests that most customers prefer a digital-first approach and want to deal directly with their lenders rather than with debt consolidators and collection agencies. Efficient digital journeys can increase uptake of repayment enrollment plans by 20% and decrease attrition from these plans (breakage rates) by as much as 30%. Third, issuers should reinforce their recovery capabilities. A strong test-and-learn practice combined with an in-house recovery unit can increase recovery income by 15% to 25%. (See Exhibit 8.)

EXHIBIT 8

# Bringing Recoveries In-House Yields Several Benefits



Source: BCG project experience.





# Wholesale Transaction Banks Must Transform

**T**ransaction banking is a strategic beachhead because of the role it plays in developing long-term customer relationships with corporate clients and financial institutions. But many banks have been underinvesting in this business, and they now face a make-or-break moment. “Make” because this market is on track to grow by 6.6% annually over the next five years, and “break” because incumbent banks have been ceding advantage to digital natives and nonbank market entrants.

There is no realistic path to success by staying the course. To remain relevant in this critical market, incumbents must reconfigure their transaction banking business from the inside out.

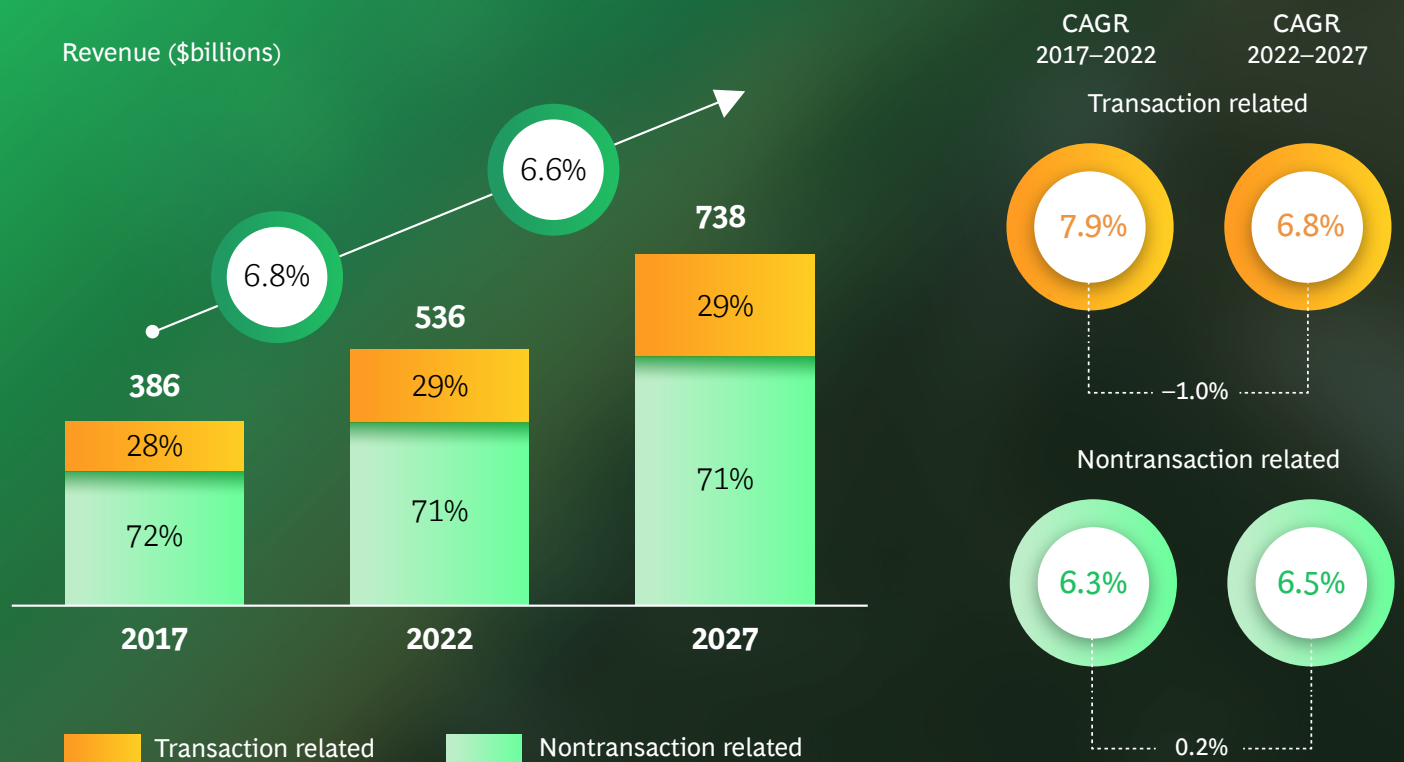
## **A MASSIVE REVENUE POOL**

The prize is huge—and growing. Transaction banking is a \$536 billion market globally today and is expected to be a \$738 billion market by 2027, growing at an annual rate of 6.6%. (See [Exhibit 9](#).)

The relative share of transaction-related revenues and nontransaction-related revenues (from deposit interest, foreign exchange fees, and interest income from short-term loans) remains more or less stable.

EXHIBIT 9

# Wholesale Transaction Banking Revenues Reached \$536 Billion in 2022



Source: BCG Global Payments Model 2023.

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

## AN INCREASINGLY COMPLEX OPERATING ENVIRONMENT

Wholesale transaction banks face multiple vectors of change. (See Exhibit 10.)

**Buying factors are changing.** Chief financial officers and corporate treasurers seek reliability, transparency, and convenience. Competitors may offer a similar product set at comparable pricing, but business will go to the player that is quicker to act on client requests, better at providing real-time payments transparency and reconciliation, and more efficient in conducting payments investigations and exception handling. Digital service delivery is another must. CFOs and treasurers have ramped up the pace of digitization in their own functions, and they expect their transaction banking partners to have done the same. Tech investments should enable service integration with corporate systems, account aggregation across multiple bank relationships, and reliable and secure service execution.

**Nonbanks are gaining share.** An increasingly diverse and powerful cadre of competitors is challenging incumbents for a slice of the \$550 billion transaction banking market, especially in the midsize corporate segment. These competitors include fintechs, treasury management solutions, procurement platforms, and enterprise resource planning software providers. Some integrate payments with accounts payable and accounts receivable processes. Others allow CFOs and corporate treasurers to manage commodity, foreign exchange, and interest rate risks. Still others help optimize liquidity and offer modern working capital solutions.

**Product growth is coming from new directions.** As payments processing becomes more and more commoditized, banks must create new avenues for growth. One promising area involves offering a request-to-pay (RtP) solution for SMEs. This solution combines instant payments with an electronic invoice exchange to digitize order-to-cash processes. RtP could give merchants a noncard payment alternative at the point of sale, too. Rising interest rates create opportunities for banks to earn interest income from deposits with corporate and financial institution clients. Finally, changing conditions in the global trade market have heightened demand for supply chain finance and working capital solutions. Although traditional documentary trade finance is declining, open account instruments are becoming more popular, driven by the adoption of digital procurement platforms and ecosystems.

**Regulatory requirements are surging.** Compliance teams have to respond to an array of regulatory guidance intended to make the payments business more resilient. Protection against cyberattacks and data security are key priorities. Global rules that aim to make the payments business more resilient include the Basel Committee on Banking Sustainability Principles for Operational Resilience, which are applicable to banks in G20 countries. In Europe, pending or recently enacted regulations include Payment Services Directive 3 (PSD 3), an EU Commission proposal on instant payments, and the EU's Digital Operations Resilience Act. Geopolitical tensions have intensified the need for strong, efficient sanctions screening and processes to ensure compliance with measures to combat money laundering and terrorism financing. Although banks bear the heavier regulatory burden, nonbanks are not exempt, and all wholesale transaction banking players must ratchet up their risk management capabilities.

**More is expected of core tech.** Large transaction banks often juggle dozens of payments applications across multiple jurisdictions. Many of these applications are nearing the end of their lifetime, and the IT staff trained to work with these systems and programming languages is aging out of the workforce. Such legacy tech issues add complexity at a time when incumbents can least afford it. GenAI is about to take the financial services industry by storm. Cyberattacks are increasing. And real-time payments, new ISO 20022 data formats, digital ledger technology, and the rollout of central bank digital currencies are gathering steam. In an increasingly tech-driven transaction banking business, legacy tech is a liability from a customer, competitor, and financial standpoint.

## A ROADMAP FOR REINVENTION

Incumbents *can* surmount the challenges they face. But they cannot do so with their current operating model. Leaders must take a hard look at their existing capabilities; acknowledge the increasing spread between large, modern, multinational transaction banks and tier 2 and tier 3 banks; and commit to reworking their business. Although reinvention is hard, the rewards for those that make the effort are likely to be enormous. Here's how established players can jump on a new trajectory of growth.

# Every Facet of Transaction Banking Is in Flux



## CFO AND TREASURER NEEDS

- Digital/mobile
- Bank agnostic
- Real time
- Personalized



## REGULATION

- Operative resilience
- AML/ATF
- Sanctions
- Digital currencies



## COMPETITION

- Ecosystems extension into payments
- Big Tech payment/banking offering
- Fintech product offering
- Card schemes entering A2A payments
- Banks with recent market entry into transactional banking



## TECHNOLOGY

- Real-time payments
- ISO 20022 data formats
- Central bank digital currencies
- Digital ledger technology and programmable payments
- GenAI and data analytics
- Digitization/smart processing



Source: BCG analysis.

Note: A2A = account to account; AML/ATF = anti-money laundering and anti-terrorist financing.

**Create a dedicated strategy for transaction banking.**

Banks often lump transaction banking services into broader business strategies. But success in this technology-intensive space requires clear focus and investment at a change-the-bank level. Banks need to push their transaction banking ambitions aggressively, setting bold but attainable objectives that reflect their current market position and the radically advantaged future they hope to create. The transaction banking strategy should focus on getting the basics right. Leaders must refine product coverage and customer segmentation, and shore up data security, cybersecurity, execution reliability, and pricing. With these fundamentals in place, banks can turn their attention to acquiring differentiating capabilities. These may include industry-specific payments offerings like JP Morgan's InstaMed solution and Flywire's cross-border payments solutions for universities. They may also include new functional solutions such as pay-per-use payment models.

**Turbocharge trade and supply chain finance.** Transaction banks must update their trade and supply chain finance offerings. Letters of credit, financing for accounts payable and receivable, and other classic products will remain important. But banks must augment this bundle with innovations such as purchase order financing and inventory financing. Incumbents must also commit to digitizing their trade and supply-chain finance services to enable API-based integration into third-party procurement platforms (such as SAP Ariba, Coupa, or Tradecraft) or even to co-creating platforms in a banking consortium (such as Trade Information Network). [BCG research shows that participating in digital financial ecosystems can confer enormous value.](#) Other avenues of growth include helping corporate customers accelerate their green transition—for example, by rewarding ESG-compliant buyers and suppliers with better financing conditions. And as more investors view trade and supply chain finance as an investable asset class, incumbents should make originate-to-distribute models open to institutional investors as a complement to balance sheet funding.

**Use deposits as a customer-value driver.** Today's rising interest-rate environment provides impetus for incumbents to pivot beyond credit and support their clients' balance sheet needs. Banks should focus on cash-rich industry verticals that require more complex liquidity optimization and make it easy for customers to access their transaction banking services. Providing improved visibility into cash positions and offering VAS such as cash forecasting can help banks build a more compelling offering.

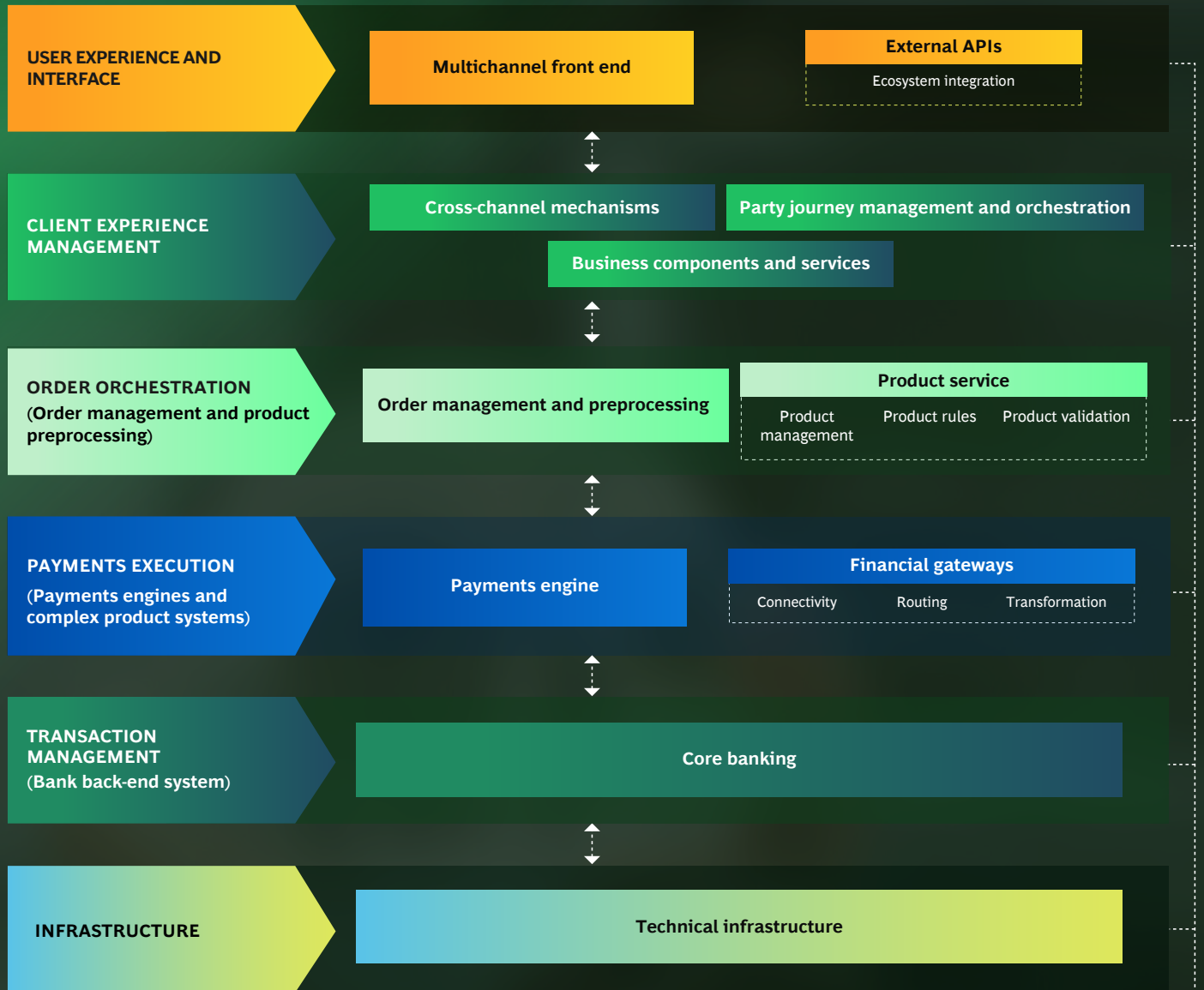
**Commit to tech modernization.** For incumbents with legacy technology, the question is not whether to modernize but how quickly to get the job done. Three main paths are available: build and manage everything in house (a route typically available only to very large banks with sufficient scale); blend customized vendor solutions with in-house operations; or outsource payments technology and operations to a specialized business payments processing provider such as FIS, Worldline, or Nexi. The result must enable an open and modular architecture that can accommodate RTP, large data volumes, API and host-to-host connectivity, and cloud-based applications and infrastructure. (See Exhibit 11.) It must also have the capability to apply transaction data analytics and GenAI to create new client offerings such as real-time liquidity projections, predictive payment scheduling, and transaction filtering. In many cases, designing the target architecture will require banks to make tradeoff decisions along the different building blocks of the payments architecture, including balancing richness in future functional and technical requirements against development costs and timely implementation. For this reason, determining the target tech landscape requires close collaboration among business (sales and product management), payment operations, and IT.

**Operationalize transformation.** Strong governance is essential. Banks must appoint specific product owners with end-to-end responsibility for each transaction banking product. Together with these individuals, they must develop a target-state tech architecture and a multiyear roadmap to implement it. Leaders need to push product innovation while also watching for regulatory changes and market infrastructure upgrades. Key business, operations, and technology stakeholders need to be engaged in the planning and aligned on the roadmap. At the outset, we recommend prioritizing one or two high-value client use cases and sequencing the tech modernization on the basis of a clear business case logic. This focus can help planners prioritize investment and create momentum to support the broader transformation. Given the magnitude of change involved, banks must ensure continuous top management attention, full stakeholder alignment, and rigorous program management.

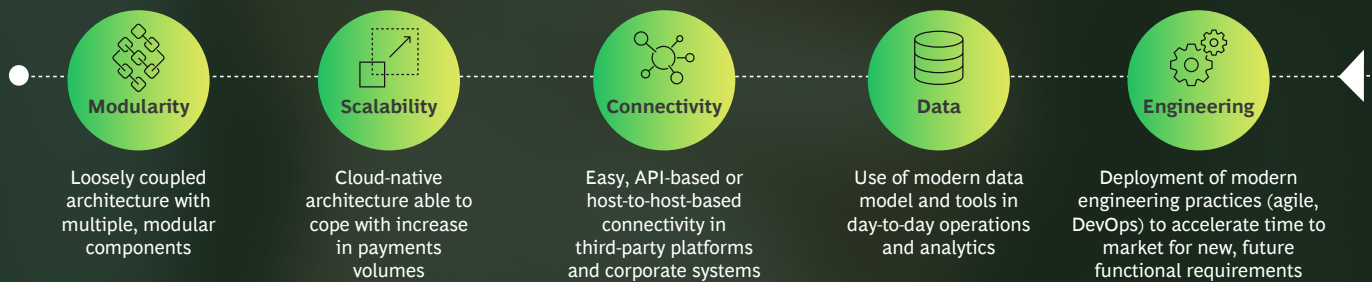
EXHIBIT 11

# A Modern Payments Architecture Consists of Six Core Elements

Simplified, high-level view of the architecture



## Underpinned by key design principles



Source: BCG analysis.



# The Payments Infrastructure Revolution

The payments industry is under construction. From rails to regulation to currencies, nearly every element of the global payments ecosystem is undergoing a rebuild. This period gives infrastructure players and various other payments market stakeholders a unique opportunity to define the future of payments and their roles within it.

## FIVE TRENDS RESHAPING THE BACKBONE OF PAYMENTS

Several overlapping developments have thrust payments infrastructure providers into the forefront.

### Infrastructure investment is reaching a tipping point.

The payments industry faces heightened pressure to innovate—and this pressure is driving greater investment in payments infrastructure. For example, banks are updating their core infrastructure and accelerating their move to the cloud to operate more efficiently and compete with digital challengers. Payments schemes are introducing richer data formats to enhance interoperability, expand

data collection, and enable richer remittance information. And more countries have adopted instant payments deployment. Before 2010, only a handful had RTP infrastructure. Today, 81 countries have it, and that number is growing.

**New payments rails are gaining momentum.** In many parts of the world, APMs are taking share from cards. We forecast that APMs will grow twice as fast as person-to-merchant payments from 2022 to 2027. (See Exhibit 12.) As interest in APMs grows, infrastructure providers are expanding use cases beyond consumer transactions. For example, since 2021, person-to-merchant and person-to-government transactions on Brazil's PIX rail have seen their share of the total payments mix grow from about 25% to roughly 40%. Globally, many merchants now consider the availability of APMs to be an important selection criterion when choosing a payments provider.

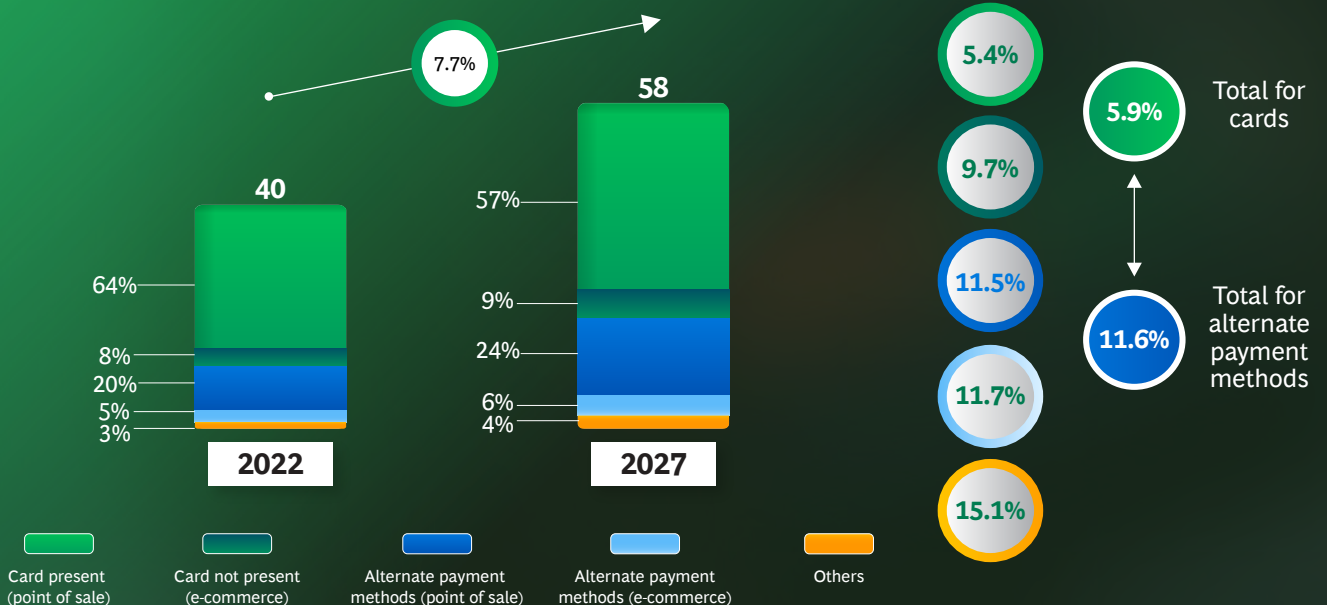
EXHIBIT 12

# Cards Will Remain the Dominant Payment Method, but APMs Will Grow About Two Times as Fast as the Market Does



Consumer-to-merchant noncash payments (\$trillions)

CAGR 2022–2027



Source: Global Payments Model 2023.

Note: BCG's Global Payments Model 2023 does not include closed-loop intrawallet transactions, cash withdrawals from ATMs, trade finance revenues, and mobile money transactions. All forecasting is done at a constant foreign exchange rate. Because of rounding, not all segment percentages add up to 100%. Excludes cash transactions, bill payments, investment payments, and real estate payments.



Beyond person-to-merchant payments, APMs are expanding into cross-border payments as well. Various initiatives to create interoperability between different alternate payment methods are underway. They include the Immediate Cross-Border Payments (IXB) pilot, Nexus, and the Asian Payments Network (APN). In addition, the European Mobile Payments Systems Association is exploring interconnectivity between APMs.

**Central bank digital currencies are still a few years away.** Over 90% of central banks are exploring central bank digital currencies (CBDCs), and there could be up to 15 retail and 9 wholesale CBDCs in circulation by 2030, according to the Bank for International Settlements. **These currencies will have widespread impacts on the entire payments ecosystem**, making the design choices that go into them exceedingly complex. Central banks and market participants must assess whether to use digital ledgers or pure blockchain, and whether to revert to a traditional payments infrastructure or use a hybrid of these technology options. They also need to determine what limits to set on individual holdings, how best to protect data security, and how to ensure interoperability with domestic and global payments infrastructures. Getting the design right can unleash enormous benefits. In addition to permitting greater monetary autonomy and financial inclusion for central banks and governments, CBDCs will enable broader industry applications. Among the most exciting of these are programmable payments and the ability to integrate CBDCs into smart contracts and other forms of decentralized finance. Engaging a broad spectrum of market participants will be crucial to battle-testing the design phase of the rollout and minimizing any threats to the stability of financial market infrastructure.

### **Open banking could finally deliver on its potential.**

Open banking adoption has fared better in places that had lower barriers of entry for fintechs, such as through a supportive regulatory framework, the presence or absence of an advanced payments infrastructure, and generally attractive market conditions. In the US, for example, ACH processing used to take several days, making account and balance validation a lengthy process, but open banking has streamlined these steps, helping fintechs onboard and validate customers in a more seamless way. In Europe, where open banking has had mixed success, PSD 3 promises to broaden the scope of data included in open banking and enable greater standardization and access, removing barriers that have hindered the pace of adoption for many years. Expanded access to data and greater standardization will allow infrastructure providers to offer a rich assortment of use cases, including real-time customer acquisition and onboarding decisioning, and digital identity verification. The changes can also enable newer payments forms to operate on real-time payments rails such as recurring and push payments. Banks are also interested in participating in open banking to ensure that they fulfill regulatory mandates and to fend off competition. Infrastructure providers can support banks with solutions that make compliance with regulatory mandates easier to review and allow banks to leverage open banking innovations for commercial applications. Open banking is not a product class of its own, however. The viability of various market solutions will depend on how participants leverage the infrastructure.

**Regulators are raising the bar.** Governments are becoming more active in regulating payments, and this activity is affecting the operations of some payments infrastructure providers. The Reserve Bank of India, for example, temporarily banned some card networks from issuing new cards because of noncompliance with local data storage rules. And in Europe, the European Commission has published draft proposals for PSD 3, Payment Service Regulation, and Regulation for Financial Data Access to reduce fraud levels, improve consumer rights, and create a more level playing field between banks and nonbanks. In addition, local rails, scheme issuance, and cobadging could cut into revenue growth for cards companies and impose new requirements for data security and operations.

## INFRASTRUCTURE PROVIDERS MUST LEAD THE REVOLUTION—OR BE LEFT BEHIND

Over the next several years, industry participants will make major decisions that will impact the future of payments. Infrastructure providers must be part of that conversation. Here are our recommendations.

**Pick a strategic focal point.** The evolving payments infrastructure environment can create a dizzying number of opportunities and operational challenges. But players must choose a north star and anchor their strategy to that. Card schemes, for instance, have operated a strong network for many years, but they must now diversify in areas such as B2B payments, account-based payments, and open banking if they are to maintain growth. Banks and other large financial services institutions must ensure that their current infrastructure initiatives offer a clear path to value creation. And technology players must prepare to deal with emerging trends on decentralized finance and related innovations.

**Be a modernization facilitator.** Infrastructure providers have a deep understanding of what modernizing the payments ecosystem will involve. They can use that knowledge to provide enabling solutions—“as a service,” as embedded finance, or in a similar capacity. Infrastructure providers can supply particular expertise in use case development. Leaders can tailor the data needed for open banking, CBDC, and other types of exploration to specific audiences.

**Partner with policymakers.** Industry participants and regulators must work closely together to shape infrastructure developments and create policies that encourage adoption by end users. Banks, card schemes, and others can help educate policymakers on the risks and opportunities associated with CBDCs, tokenized deposits, and other advances. For their part, regulators should be open to working with the industry to ensure that the policy frameworks they develop support rather than stifle innovation and facilitate adoption of new payments infrastructure across the entire payment ecosystem.

**Diversify value streams.** Because core infrastructure strategies can easily become commoditized, infrastructure providers should lean into orchestration-layer propositions and at-scale VAS. Card schemes have already shown the benefits of pivoting to VAS. And a more diverse solution set can act as a hedge against slowdowns in any one product area. Creating these enhanced offerings will require players to move from a business-unit orientation to a more product-centric organization to enable always-on innovation and ensure continued delivery of value to customers.



## Conclusion






The payments industry has proved itself to be extraordinarily dynamic. The tumultuous crises over the past several years offer ample evidence of that. Despite a pandemic, supply chain shocks, and rising geopolitical tensions, the payments sector has continued to lead other industries in its rate of innovation. But years of nonstop disruption have begun to take a toll—putting pressure on slow-to-modernize institutions. Now leaders must confront disruption head-on—and they must do so quickly because not moving fast enough carries real risks. As innovations inspired by emerging technologies crop up in more solutions, as adoption of RTP and CBDC grows, and as challengers continue to raise the bar for excellence, businesses cannot stand still. To navigate the challenges ahead, organizations must take decisive action. (See Exhibit 13.)

Leaders that are willing to act can unlock new revenue sources and secure a more prosperous future for their business and stakeholders. Resilience has defined this industry, and, with adaptability, its strength will endure.





## EXHIBIT 13

# Payments Leaders Can Enable Sustainable Growth with These Steps

### Cross-industry actions

 <p><b>Resilience</b></p>	<ul style="list-style-type: none"> <li>• <b>Short term:</b> Make safeguarding shareholder value and cost excellence a top priority for the next 6 to 12 months to improve operating results.</li> <li>• <b>Long term:</b> Create an integrated business, finance, and investor strategy to increase TSR.</li> </ul>
 <p><b>M&amp;A</b></p>	<ul style="list-style-type: none"> <li>• <b>Short term:</b> Refresh partnership strategy to identify and realize current M&amp;A opportunities at attractive valuations.</li> <li>• <b>Long term:</b> Integrate M&amp;A and partnerships to complement in-house built capabilities.</li> </ul>
 <p><b>GenAI</b></p>	<ul style="list-style-type: none"> <li>• <b>Short term:</b> Size the opportunity, and identify two or three high-impact use cases to start. Build the tech architecture, governance, and skills to implement use cases.</li> <li>• <b>Long term:</b> Scale GenAI (and more broadly data analytics) across the organization, focusing on the most important customer journeys.</li> </ul>
 <p><b>Technology</b></p>	<ul style="list-style-type: none"> <li>• <b>Short term:</b> Baseline current payments architecture, and translate regulatory requirements, infrastructure changes, and technology innovations into a multiyear roadmap.</li> <li>• <b>Long term:</b> Execute the roadmap and manage the complex change projects to deliver implementation results on time, on budget, and with the right quality.</li> </ul>
 <p><b>Risk and compliance</b></p>	<ul style="list-style-type: none"> <li>• <b>Short term:</b> Perform a brutally honest self-assessment on risk and compliance capabilities, and close the most important gaps.</li> <li>• <b>Long term:</b> Define and implement a target operating model to enable long-term resilience and professionalize risk management and compliance practices.</li> </ul>

### Industry-specific actions

 <p><b>Acquirers/ merchant services providers</b></p>	<ul style="list-style-type: none"> <li>• <b>Short term:</b> Develop differentiating value-added services around digital marketing and loyalty and embedded finance. Accelerate cloud migration, update API strategies, and pilot AI and GenAI use cases. Create a task force to manage M&amp;A and partnerships.</li> <li>• <b>Long term:</b> Reimagine core merchant journeys, linking customer experience improvements to back-end operations. Future-proof the tech platform, consolidating platforms and adopting a modular, scalable architecture.</li> </ul>
 <p><b>Issuers</b></p>	<ul style="list-style-type: none"> <li>• <b>Short term:</b> Embrace agile work practices to improve marketing efficiency. Reduce delinquencies by implementing early indicators, digital self-service and stronger in-house recovery capabilities. Cultivate corporate payments solutions through co-investments with procurement platforms.</li> <li>• <b>Long term:</b> Use M&amp;A and partnerships to retool loyalty, ramping up deal sourcing capabilities and revising collaboration models. Become a tech- and data-led issuer, and prioritize real-time processing, banking-as-a-service, and data-as-a-service capabilities.</li> </ul>
 <p><b>Wholesale transaction banks</b></p>	<ul style="list-style-type: none"> <li>• <b>Short term:</b> Create a dedicated strategy for transaction banking. Turbocharge trade and supply chain finance by launching innovative offerings such as ESG-compliant supply chain finance, and digitize services. Use deposits as a customer-value driver by offering value-added services that focus on cash-rich industry verticals.</li> <li>• <b>Long term:</b> Commit to a tech modernization path. Build in-house, use a vendor, or outsource. Operationalize transformation by appointing specific product owners and prioritizing one or two high-value client use cases.</li> </ul>
 <p><b>Payments infrastructure providers</b></p>	<ul style="list-style-type: none"> <li>• <b>Short term:</b> Pick a strategic focal point tied to the highest-value opportunities. Be a modernization facilitator, deploying subject matter expertise to create “as-a-service” solutions that guide ecosystem partners. Diversify value streams by creating orchestration layer propositions and at-scale value-added services.</li> <li>• <b>Long term:</b> Partner with policy makers to shape infrastructure developments and encourage end-user adoption. Move from business-unit orientation to a more product-centric organization to enable “always-on” innovation and ensure continued value delivery to customers.</li> </ul>

# For Further Reading

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

## Managing Risk for the Next Wave of Digital Currencies

A report by Boston Consulting Group, July 2023

## How Generative AI Is Already Transforming Customer Service

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## Global Wealth Report 2023: Resetting the Course

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## How Banks CMOs Can Do More with Less

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## Impact of Distributed Ledger Technology in Global Capital Markets

A report by the Global Financial Markets Association and Boston Consulting Group, May 2023

## Financial Institutions Must Get Serious about Digital Ecosystems

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## Why Rising Interest Rates Aren't a Cure-All for Banks

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## Banks Can Bet Big on Social Impact

An article by Boston Consulting Group, December 2022

## Global Payments Report 2022: The New Growth Game

A report by Boston Consulting Group, October 2022

## Winning Financial Institutions Build on Digital Strategy

An article by Boston Consulting Group, October 2022

## A New Era for Money

A report by Project New Era and Boston Consulting Group, February 2022

## Global Payments 2021: All in for Growth

A report by Boston Consulting Group, October 2021

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