



Knowledge Area Review (KAR)

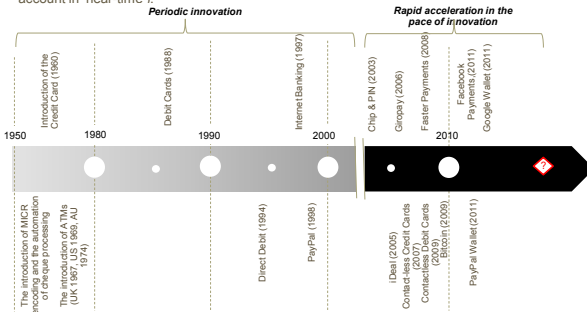
The Future & Implications of the Evolving Payments System – Product Brochure

November 2014

KAR 017: The Future of Global Payments

The Pace of Payment System Evolution

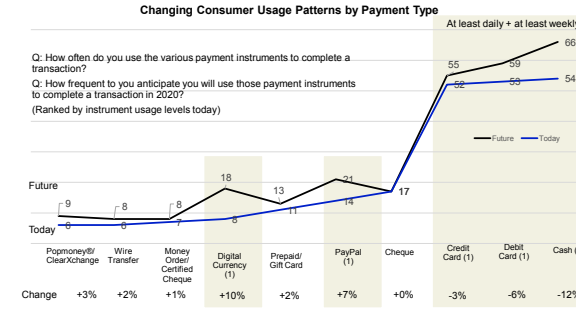
The traditional evolution brought many new ideas, but the pace of change in the past 10 years has been accelerating with a clear global trend toward faster payment (money in recipients account in 'near-time').



Source: ICG Analysis, Accenture Future of Payments: Convergence, Competition & Collaboration 2014.ppt
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Consumer Payment Usage

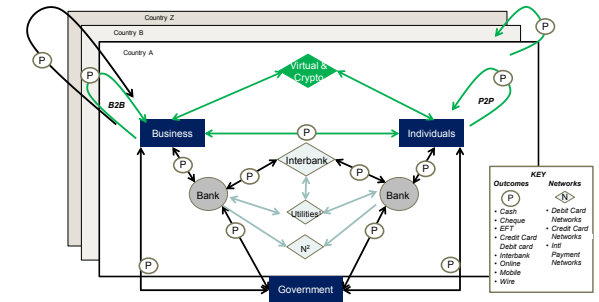
Traditional payment instruments will decline slightly as emerging payment instruments become more widely used at the end of the decade, especially amongst Millennials



Source: Accenture, North American Consumer Payments Survey 2014. Note (1) includes daily and weekly
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Pressure and Challenges – Virtual & Crypto Currencies

While in existence for decades virtual and crypto currencies have taken a larger part of the pie, and while not linked to existing currencies in the global payments system have the potential to play a much larger part in commerce



Source: Adapted from Celent, Taxonomy of Payments, ICG Analysis, (1) consortium or individual processors outsourcing, (2) other enabling networks
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PRODUCT SAMPLE: The Future & Implications of the Evolving Payments System (total of 90 pages)

Commercial research relevant to an executive or project team seeking to better understand the opportunity to participate and create value in a payments business.

To purchase this KAR, contact your preferred ICG affiliate or local ICG office.

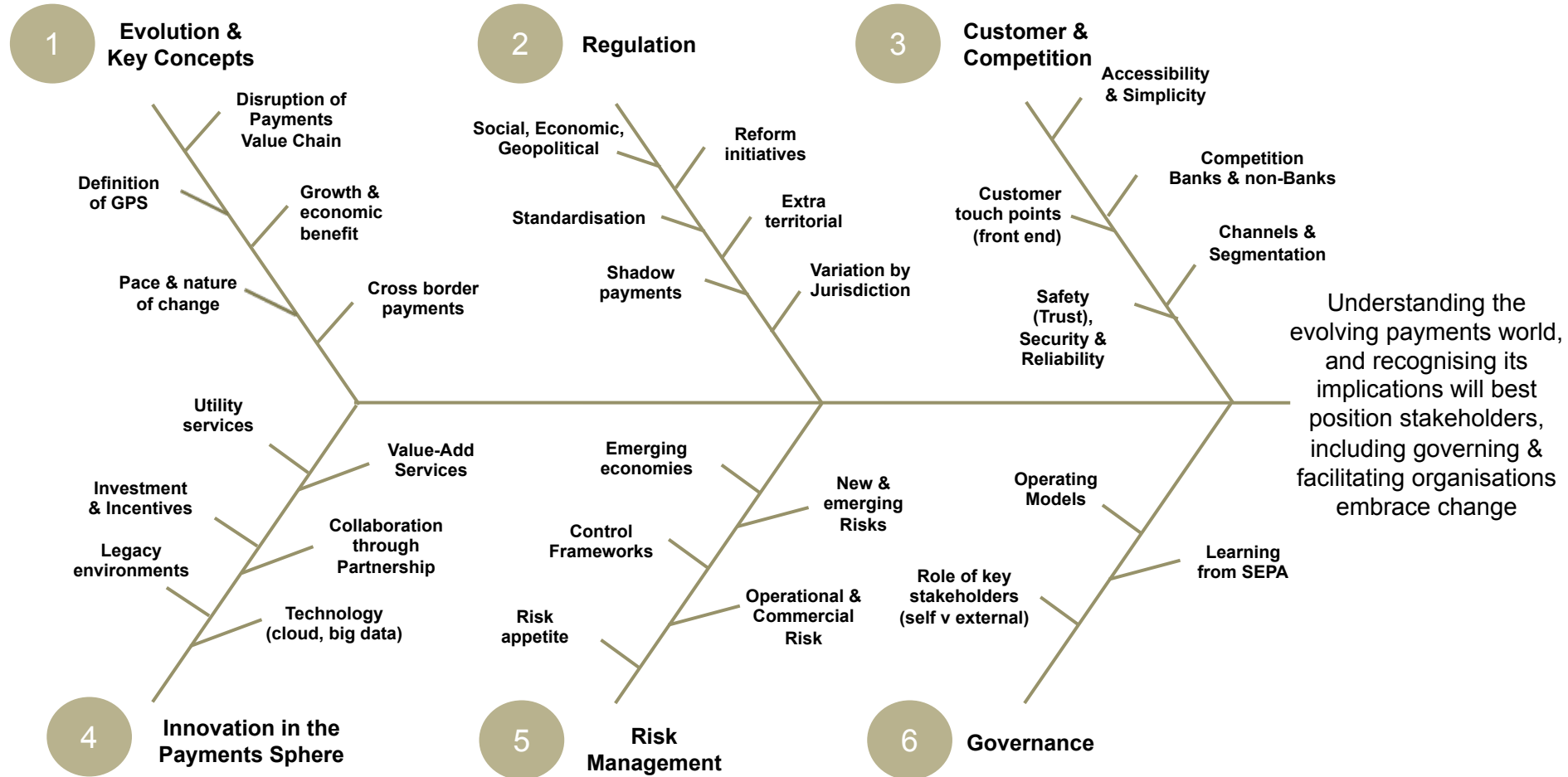
This document provides a broad view of the evolution of the global payments environment and its implication on the key stakeholders in its various jurisdictions. It is a catalyst and support to internal dialogue, and will assist in developing a shared perspective on the future and how to respond to the ongoing evolution and expected changes in the space. To this end, the KAR breaks the issue down into six component parts:

1. How has the global payments system (GPS) evolved over the past 10 years?
2. How are social, economic and geopolitical factors influencing regulatory change?
3. How are customer expectations and competition changing?
4. What are the innovations and key trends?
5. What effect does the changing GPS have on risk management?
6. What are the key considerations for stakeholders and different governance models?

In summary, our research suggests that as the global economy shifts toward greater retail spending, consumers will be a key driver in payments innovation across the entire value chain (i.e. pre-payment, payment, and post-payment).

We will see significant innovation in the payments world in the next 10 years. Increasingly payments will not be separate activities (i.e. the payment), but more and more form a part of a larger 'commercial' transaction that is laden with harvestable information and potentially multiple currencies.

Six Key Themes Have Emerged as Key Drivers of Change in the Global Payments System



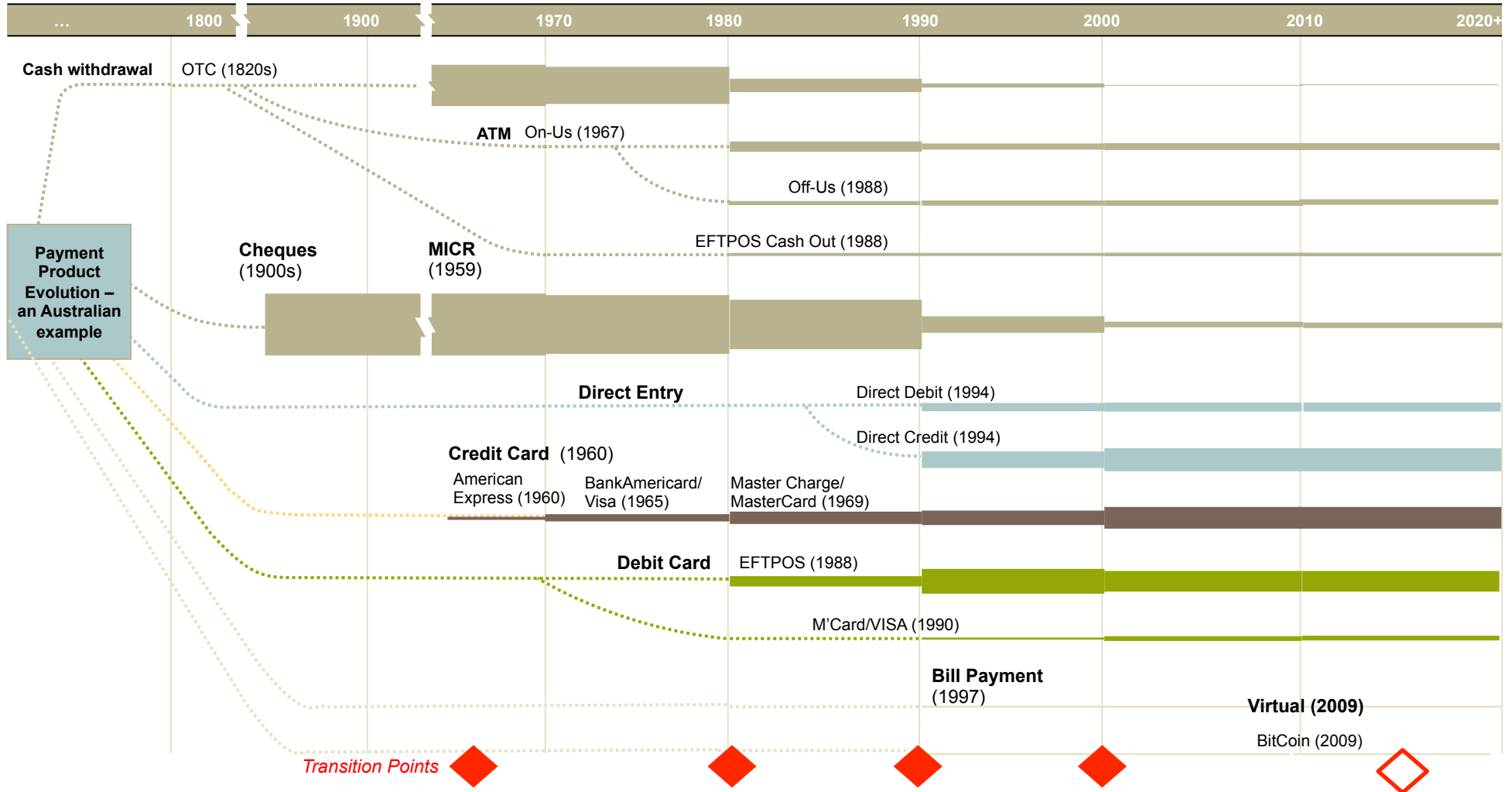
The Future of the Payments System – Table of Contents

Section	Component	Description
1	Executive Summary	Overview of our research and findings
2	The Global Payments System	Overview of the Global Payments System, its evolution and key implications for stakeholders
2a	Evolution & Key Concepts: How has the global payments system evolved over the past 10 years?	
2b	Regulation: How are social, economic and geopolitical factors influencing regulatory change?	
2c	Customer & Competition: How are customer expectations and competition changing?	For each different dimension <ul style="list-style-type: none"> • The key thinking from consulting firms, journals and academia as to what constitutes best practice • Examples of this best practice across different firms and industries
2d	Innovation in Payments: What are the innovations and key trends?	
2e	Risk Management: What effect does the changing GPS have on risk management?	
2e	Governance: What are the key considerations for stakeholders and different governance models?	
3	Knowledge Sources	Relevant published materials for further reading

Payments System Evolution

Payments types have expanded dramatically over time, with traditional products then ceding to new innovations at key transition points – key question: what’s next?

Estimated 100% of volume by decade



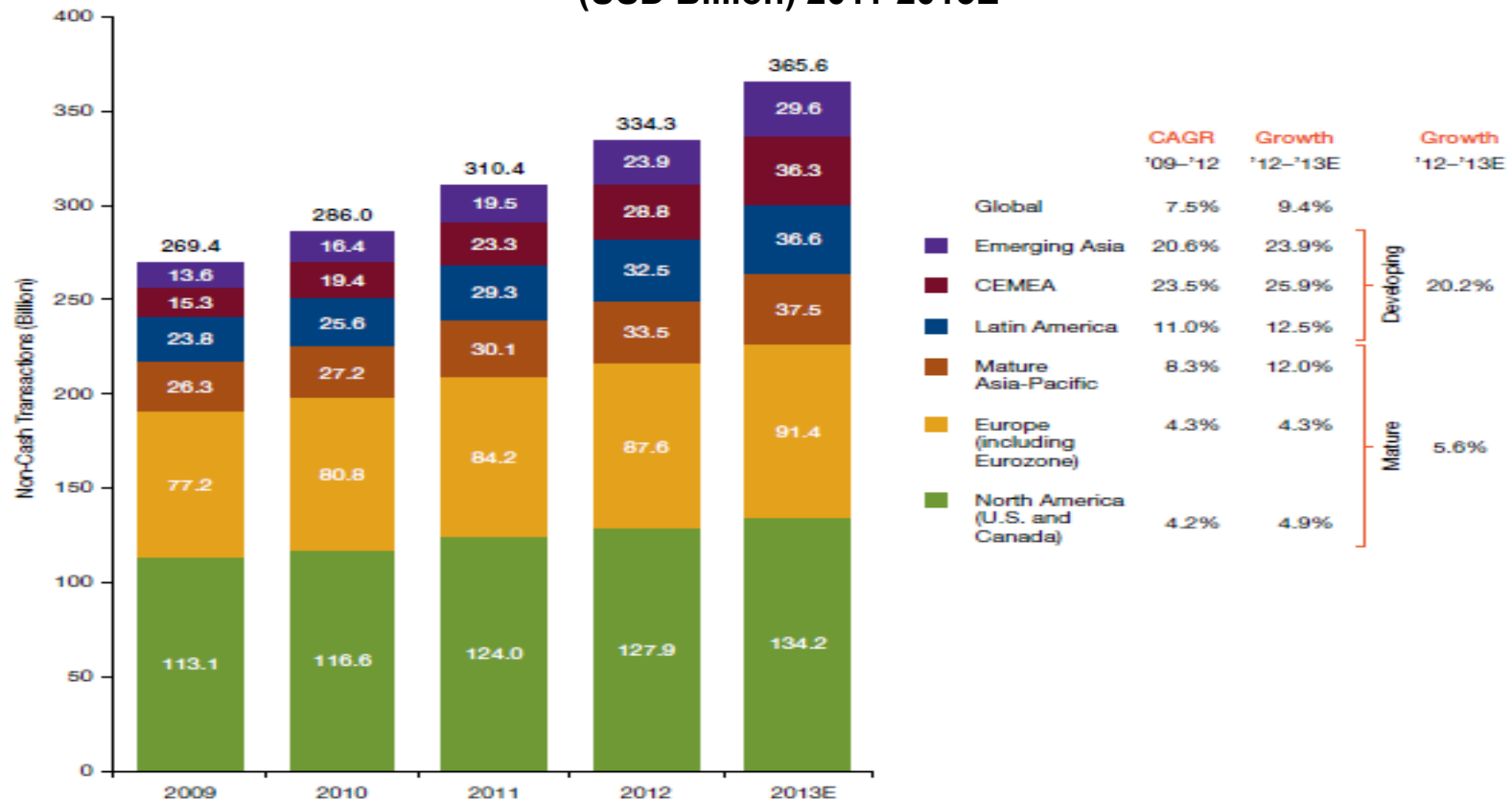
Source: ICG/RBA and Focused Outcomes Consulting

Note: 1. Volumes prior to 2000 are Focused Outcomes estimates only as there are no reliable industry numbers available.

Non-Cash Growth

Non-cash transactions are increasing led by two regions: Emerging Asia and Central Europe Middle East Africa (CEMEA). Convergence, as well as the penetration of online and mobile technologies coupled with the rise of faster payment schemes will drive the global non-cash payments industry in the short term

Number of Worldwide Non-Cash transactions by Region (USD Billion) 2011-2013E



Source: Capgemini, World Payments Report, pg 15

International Organisations & Associations

At the coal face of technical and regulatory standard setting, international bodies aim to devise broader international standards that govern the operations of financial markets and the many financial firms in those markets with an important impact on the broader macroeconomy.¹ The same regulatory standards however, are not always applied to new and disruptive market entrants.

Key International Organisations

<p>The Basel Committee (G10) Formed in 1974, with most significant impact on developing legally nonbinding international financial standards.</p>	<p>United Nations Security Council Sanctions Committees Can take enforcement measures to maintain or restore international peace and security ranging from economic and/or other sanctions applied to individuals or entities.</p>	<p>World Bank & Bank of International Settlements The Committee on Payment & Settlement Systems (CPSS) of the Bank for International Settlement (BIS) is the standard setter for large value retail, FX and securities settlement.</p>	<p>IMF International Organisation of Securities Commissions (IOSCO) develops, implements, and promotes adherence to internationally recognized standards for securities regulation, and is working intensively with the G20 and the Financial Stability Board (FSB) on the global regulatory reform agenda.</p>	<p>OECD's Financial Action Task Force (FATF) Tasked with setting international standards of disclosure and transparency for the regulation of banks regarding money laundering and counter terrorism financing.</p>
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International Association

International Council of Payment Association Chief Executives (ICPACE)

Engagement between regulatory bodies in different jurisdictions occurs via the International Council of Payment Association Chief Executives (ICPACE) and informally.

ICPACE includes payment associations from countries, including the US, UK, Canada, Ireland, South Africa, New Zealand and Australia, and provides a valuable forum for information sharing. ICSPACE also facilitates joint research, including publishing research on ISO 20022 implementation.²

Source: (1) Kern, A, *Global Financial Standard Setting the G10 Committees and Economic Law*, pg 867-877 (2) APCA Annual Review 2014, p14

The Emergence of Shadow Payments

A key disruptive trend enabled by Innovation is the growth and development of new forms of payment that exist between regulated, visible transactions and untraceable, anonymous cash and Virtual Currency transactions.

These hidden or ‘Shadow Payments’ have a range of characteristics, and may operate within regulatory frameworks however, they can be unreported, without customer information and traceable to the point of transaction only. Customer Identification/Information may not be required.

← More
Market Transparency and Active Governance Continuum
← Less →

		White	Shadow	Black
Characteristics	Regulated	Regulated	Regulated and Outside regulation	Outside regulation
	Traceable	Traceable	Partially Traceable	Untraceable
	Transparent	Transparent	Partially Anonymous	Anonymous
	e.g., Cards, Faster payments	e.g., Cards, Faster payments	e.g., Prepaid, Loyalty cards	e.g., Cash, Virtual Currency

Five major elements to the Shadow Payments market²

1. Closed/Restricted loop pre-paid retail/gift cards e.g., Walmart American Express: no credit checks, reloadable and can withdraw cash from ATM,
2. Virtual Currency e.g., Bitcoin & Ripple
3. Prepaid mobile wallets: e.g., Starbucks Card Mobile App enables barcode-based checkouts,
4. Payment Aggregators: PayPay uses stored value accounts, Google Checkout and Amazon Payments enable merchants to accept credit card and bank transfers without merchant account with bank or card association
5. Worker Remittances: sent through private, rather than open, payment networks remain unreported

Source: ICG Analysis (2) Capgemini World Payments Report, 2014, pg 14 and McKinsey & Company, McKinsey on Payments, Payments Practice, Mar 2013

Overlapping Impact on KRIs on ITTs (1)

There has been a shift of focus towards global levels, with a considerable degree of overlap in terms of ITTs, with more than 50% falling into innovation

Key Regulatory & Industry Initiatives (KRIs)	Industry Transformation Trends (ITTs)			
	Risk Reduction	Innovation	Competition & Transparency	Standardisation
• Basel III Capital Norms	High			
• Basel and Intraday Liquidity Norms	High			
• Cross-Border Low Value Payments Processing		High	High	
• Access to Accounts (PSD II)		High	High	High
• FATCA	Low			
• AML/AFT	High			
• SEPA/e-SEPA		High		High
• Pressure on Card Interchange Fees			High	
• Prepaid Payment Product Regulations in NA	High		High	
• Large Value Payment System Upgrades		High		High
• Real Time Retail Payments		High		High
• European Current Account Switching			High	High
• EMV Adoption in the US	High	High		
• Internet Payment Security in Europe	Medium			
• Data Privacy and Payments		Medium	Medium	Medium
• Payments Governance			High	High
• ISO 20022 Standards in Payments				High

Impact on Payments

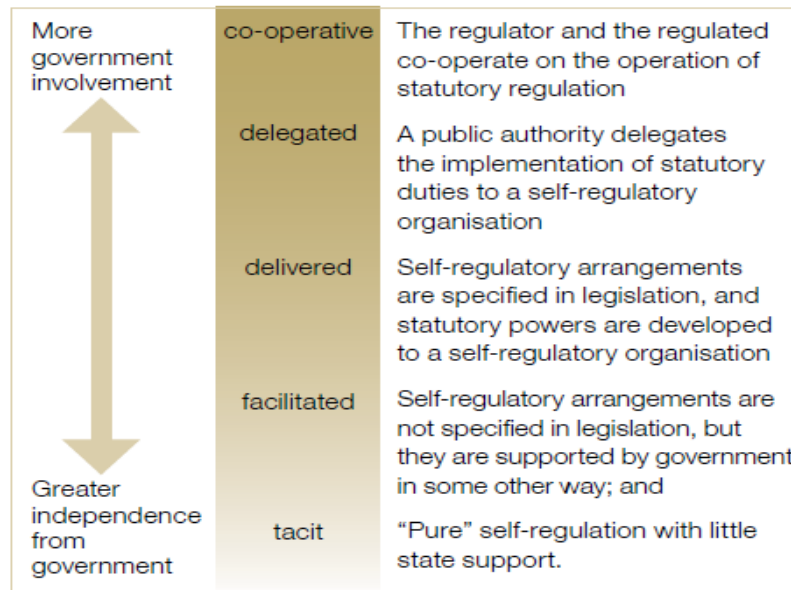
High	Medium	Low
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Source: Cap Gemini, World Payments Report, p 24

Fit for Purpose Governance

The extent of government involvement in payments governance models varies around the globe. As one approach is unlikely to meet the needs of payment participants in all jurisdictions, the pace, nature and extent of change in the payments system, in the context of dynamic regional influences and developing economies, are catalysts that challenge key assumptions underpinning existing models.

Spectrum of Self-Regulation



Several countries – among them Canada, Australia, the United Kingdom and South Africa have established a National Payments Council to drive policy development, self regulation and standards development.²

Governance Principles

Five principle that characterise a sound self-governance framework for payments systems are:

1. Certainty
2. Legitimacy
3. Transparency
4. Flexibility
5. Efficiency

In their submission to the Financial Services Inquiry regarding future challenges facing the payments industry and regulators APCA recommend;³

- Supporting co-regulation in payments
- Ensuring functional equivalence of regulation
- Reviewing the RBA's current jurisdictional reach
- Encouraging use of virtual, automated and electronic payments
- Efficient structuring of interactions between regulated entities and regulators

Source: (1) International Council of Payment Association chief executives, principles of payments industry self-governance, 2007 (2) McKinsey & Partners, McKinsey on Payments - Forging a path to payments digitization (3) APCA Submission to Financial System Inquiry, Mar 2014, pg16



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