

Payments Transformation

Quarterly
Business
Update

MAY 2012 | ISSUE 1

CONSULTING

In this Issue

Social Media & Mobile

The Impact of Asia's
Growth on Payments

Emerging Trends
& Opportunities

The Influence of Social Media & Mobile

Significant developments in social media and mobile technology has resulted in an intense focus on payment processes across all sectors. KPMG is closely monitoring these advances and the impact they have on the payments industry.

When it comes to social media, consumers are ahead of business by a breathtaking distance. Too many brands are absent from technology that has the potential to help reshape the customer service cost base in many B2C sectors.

As for mobile technology, while many organisations are moving towards mobile banking and purchasing services, few are ready for the change that mobile payments will bring.

KPMG's **Going Social** survey (with over 4000 people taking part globally) showed that over 30 percent of respondents are currently using and intend to expand the use of Social Media in their businesses to drive innovation. Approximately 25 percent were subsequently in the process of adopting

Advances in areas such as Social Media and Mobile are having a major knock-on effect for the Payments industry.

Social Media strategies with 15 percent looking to adopt within the next 12 months. KPMG's **The Converged Lifestyle** survey (with over 9,600 people taking part, of which 55 percent were from Asia) then revealed that 52 percent of respondents had used mobile banking (including Payments) in the last six months.

Looking at these developments in Social Media and the adoption of Mobile technology from a Payments perspective, we can identify a range of challenges for the ecosystem. Just to scratch the surface, Merchants are having to manage additional channels for distribution, Acquirers and Processors' see ever-increasing transaction volumes (at a potentially lower value per transaction, which in turn, impacts their cost base), whilst Card Schemes and Issuing Banks have to ensure acceptance and security levels are maintained in this new environment. Having said that, it is these same challenges that provide vast opportunities for those companies who can develop solutions for the market.

Asia's growth story and its impact on Payments

With continuing advances in technology across the payments industry, it would be prudent to address the significant increase in transaction volumes (both B2C and B2B) in Asia. Recently released data by the 'Nilson Report' indicated that Asia's share of global transaction volumes on general purchasing cards increased from 26 percent to 31 percent in 2010. Going further, it is expected that by 2015, Asia will account for 48% of all purchase volumes globally, which by volume, would equate to approximately USD10,492 trillion. To quantify these figures, that means that Asia's purchasing volume is expected to be double that of the United States (estimated to be USD 5,527 trillion) by the end of this period.

The implications of this do not, however, simply extend to B2C payments. Such flows of liquidity also need to be supported by adequate B2B payments infrastructure. As a result, we are also seeing large-scale investment in Transaction Banking capabilities by Global and Regional Banks in order to support their Corporate clients.

A major contributor to this growth will ultimately be China, whose leadership is all too aware of the need to further develop their

payments infrastructure in order to support a huge scale of transactions required by the market. To quote Zhou Xiaochuan, Governor of the People's Bank of China:

"The extensive development of China's payment system in recent years and its safe and efficient operation, effectively supported and promoted economic and social development for the country."

Moving forward, Banks, Telco's and Payment Schemes will need to continue working closely together to facilitate intended growth and infrastructure development for China. An example of such a collaboration is China Mobile's investment Shanghai Pudong Development Bank and their commitment to a JV approach for Mobile Payments. Whilst such relationships are in their infancy, the world watches with interest as to whether such a platform can deliver the required infrastructure to realise the opportunities that Mobile capability can provide for Payments.

KPMG - Supporting the Change

As part of our commitment to the development of the Payments industry, we will be providing the 'Payments Transformation Quarterly Business Update'. If you would like continue to receive these updates or have any questions regarding the information provided above, please contact:

Egidio Zarrella

Clients and Innovation Partner

egidio.zarrella@kpmg.com
+852 2847 5197

Harry Hughes

Manager

harry.hughes@kpmg.com
+852 2826 7261

Emerging Trends & Opportunities

As we look across the ecosystem, there is no single group of companies that can drive this Transformation agenda alone.

Mobile operators are probably the most aggressive new entrant to this space as they look to drive increased revenues from their vast network of customers. They will, however, need Banks, Card Schemes and Application providers to work closely with them in order to realise a benefit from such strategies. Banks and Processing Companies, on the other hand, need to evaluate the value proposition they are bringing to both the B2C and B2B markets, or risk becoming commoditised service providers in this space. In addition

Banks and Processing Companies need to evaluate the value proposition they are bringing to both the B2C and B2B markets

to this, large-scale merchants will also look to continue leveraging their customer network with value-added services whilst maintaining a low cost base for transactions. To do this, they will continue to analyse the benefit of working with certain vendors.

Given such flux, regulators are watching developments in the market with great interest to ensure that suitable infrastructure is put in place to adequately protect consumer requirements. Companies who will succeed in this time of change are those prepared to invest and innovate.