



## Insights from McKinsey's Asia-Pacific Payments Map

The vast Asia-Pacific region accounts for nearly three-quarters of global payment transactions. It is only recently, however, that payments revenues surpassed those of Europe and North America to take a global lead. In 2010, revenues of U.S.\$336 million represented 31 percent of the global total, roughly in line with the region's 30 percent share of global GDP. Revenues are also growing faster in Asia-Pacific than in other regions, as consumers shift away from cash and toward electronic payments, and large and mid-sized corporations become more sophisticated and demand more services.

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Opportunities in the region have naturally drawn the attention of payments players around the world. Specialists such as card processors, networks and even telcos are investing to capture a share of the pie. International banks are working on entry strategies. And local innovative specialists are seeking to solidify their current standing. For incumbents and disruptors alike, McKinsey's most recent Asia-Pacific Payments Map offers insights that can point the way to success in the region.

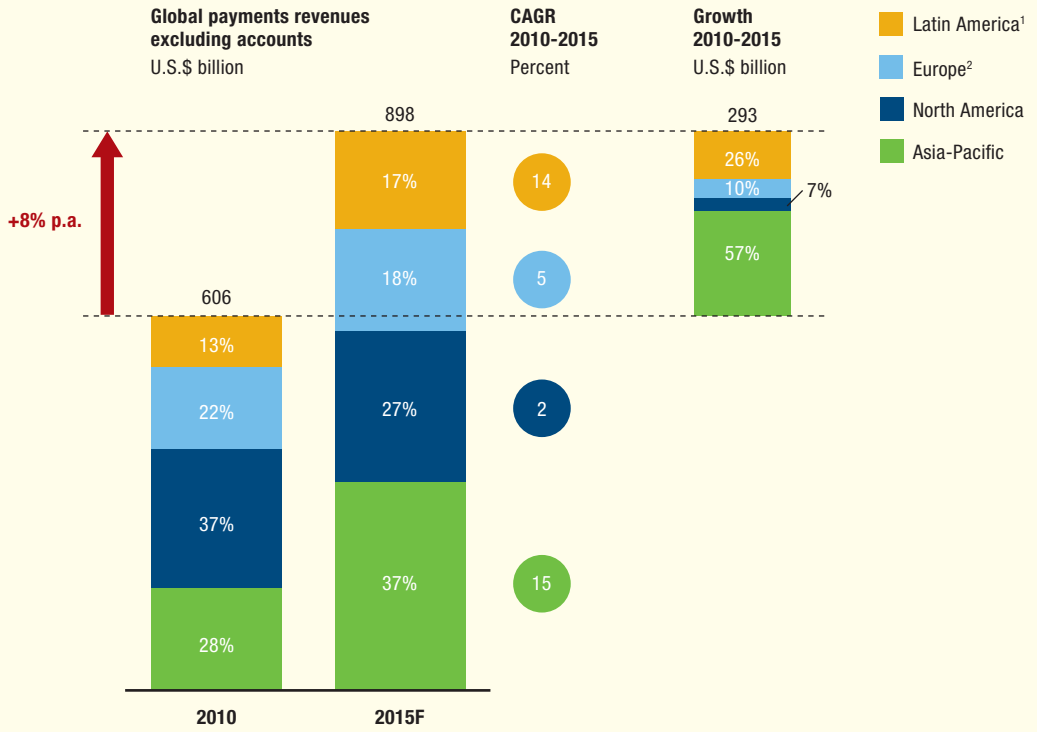
### **Transactions: More lucrative than expected**

Accepted wisdom states that the lion's share of payments revenue in Asia-Pacific derives from accounts (current account and overdrafts net interest income, maintenance and

incident fees) rather than from transactions. But at 50 percent, Asia-Pacific's reliance on accounts revenue is on par with Europe's (54 percent) and Latin America's (47 percent). (North America is the outlier at 28 percent, thanks to the prevalence of net interest margins earned on revolving credit card balances.)

Of course, the Asia-Pacific payments market is far from homogeneous, with stark differences between developed and developing countries in particular. In most developing countries (China, India, Thailand, Malaysia, Indonesia), account-related revenues still represent the vast majority of income, but transactions and credit cards are poised to increase rapidly, fueled by economic growth. Revenues in developed countries, meanwhile, are more evenly

**Exhibit 1**  
**Asia-Pacific will account for more than 50% of global payments revenue growth, excluding accounts, over the next 5 years**



**Exhibit 2**  
**Asia-Pacific's cash-intensive economies will see strong growth in cashless transactions**



spread across accounts, transactions and credit cards, but account-related revenues will experience stronger growth driven by the inevitable recovery in reference interest rates from current historic lows. (South Korea is the exception; its sizeable credit card base provides the strongest foundation for growth.)

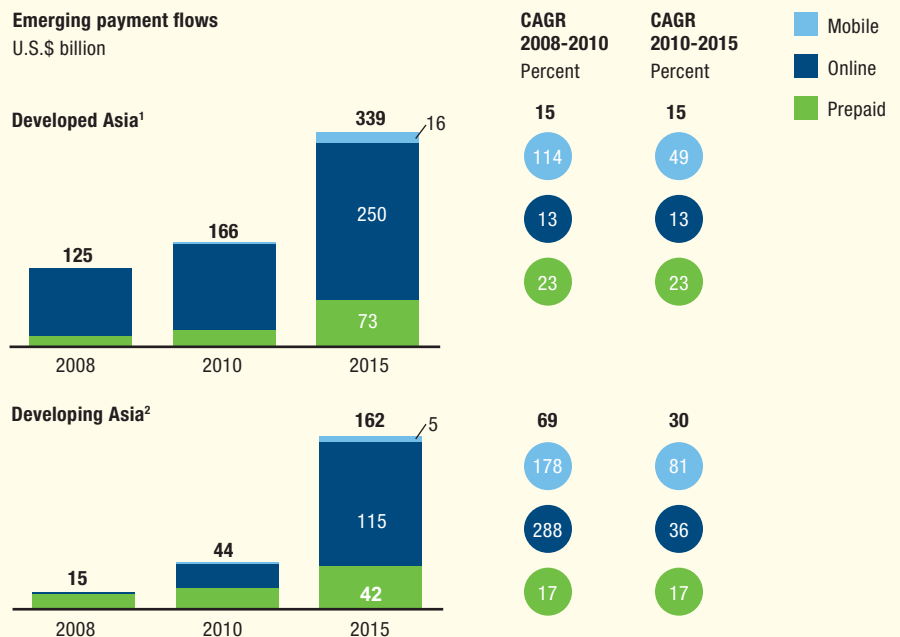
Overall, however, the share of revenues from accounts continues to fall across the region, and is expected to drop to 46 percent by 2015, while credit card and transaction-related fee revenue income are on the rise. Asia-Pacific is projected to deliver 57 percent of global non-account payments revenue growth over the next five years (Exhibit 1). This growth will present clear opportunities both for incumbents who already own banking relationships, and for attackers who can win the transaction business.

**New platforms, new opportunities**

Across the region, although at different speeds, electronic payments (card payments, credit transfers and direct debits) are on the rise, at the expense of cash and checks. By 2015, electronic payments in Asia-Pacific should account for 83 percent of flows, up from 64 percent in 2010. This translates to an average annual growth rate of cashless transactions of more than 20 percent across Thailand, Indonesia, China and India, compared to 5 to 10 percent in South Korea, Japan and Australia (Exhibit 2) (See sidebar, “Where cash is emperor,” page 8). Given the higher revenues associated with electronic transactions compared to cash, this trend underscores the attractiveness of developing markets.

Driven by high levels of both adoption and innovation, flows for emerging payments

Exhibit 3  
**Emerging payments, particularly mobile, will experience extremely strong growth**



<sup>1</sup> Australia, Japan, S.Korea, Taiwan, Hong Kong and Singapore

<sup>2</sup> China, India, Indonesia, Malaysia and Thailand

Source: McKinsey Global Payments Map; IDC New Media market model; Passport Internet retailing report; eMarketer Asia Pacific B2C ecommerce report

methods such as prepaid cards and online and mobile payments will grow at more than twice the rate of overall payments flows over the next five years, especially in developing markets (Exhibit 3, page 5). Another clear sign of the prevalence of emerging payments in the region: 9 of the top 15 countries in MasterCard’s Mobile Payments Readiness Index are from Asia-Pacific. McKinsey’s Global Mobile Payments Survey confirms that excitement exists around the promise of this technology: compared with developed markets like the U.S., U.K. and Hong Kong, a materially greater share of consumers in China and especially India expect mobile payments to be broadly accepted by retailers in three to five years. And in each country surveyed, well over half of consumers expect

such broad acceptance within the same time frame. This strongly implies that mobile payments have the potential to disrupt payments habits across the region.

Prepaid card load is expected to grow at an average annual rate of 17 percent in Asia-Pacific through 2016, meaningfully higher than the already healthy 10 percent growth rate for the rest of the world. As always, specifics vary by market: prepaid cards have been enormously popular in China due to tax benefits which have led to payroll applications (See “Tapping into China’s fast-growing prepaid market,” page 18). Japan’s prepaid business is highly transport-ticket driven, while in India fuel cards – seen as an expense management tool – are driving growth.

Exhibit 4

**Developing markets will experience growth mostly through transactions and credit cards while developed countries will mostly rely on accounts**

**Payments revenues**

U.S.\$ billions

2010 value

2010-15 Growth rate

		Transaction fee revenue <sup>1</sup>	Credit card revenue	Account related revenue <sup>2</sup>
<b>Developing</b>	China	72.5 21%	6.6 27%	87.2 12%
	India	3.4 28%	1.5 14%	18.0 13%
	Indonesia	1.0 21%	1.2 17%	5.4 16%
	Malaysia	0.8 13%	0.9 9%	3.0 8%
	Thailand	1.1 15%	1.2 14%	1.9 11%
<b>Developed</b>	Australia	4.5 5%	6.8 5%	11.4 13%
	Hong Kong	0.6 12%	1.8 8%	0.3 30%
	Japan	14.6 1%	26.5 1%	33.4 6%
	Korea	5.3 7%	12.1 11%	5.4 6%
	Singapore	0.5 13%	1.6 4%	1.2 21%
	Taiwan	0.4 7%	1.7 4%	1.3 13%

<sup>1</sup> Debit cards, checks, direct debit, transfers, prepaid cards transaction fee income and float income

<sup>2</sup> Checking accounts, overdrafts, maintenance fee income and interest income

Source: McKinsey Global Payments Map

On the corporate payments side, the growing sophistication among corporate customers is providing further fuel for revenue growth. As an example, for the first time, providers' ability to integrate with enterprise resource planning systems ranks among mid-market customers' top three factors in bank selection, ahead of more traditional factors such as branch proximity. This implies that banks will need to invest to meet higher expectations on cash management solutions. By offering electronic marketplaces and ensuring that e-payments are secure and reliable (e.g., Alipay's escrow account solution), specialist players could capture share in this fast-growing market.

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Large corporates meanwhile are consolidating their cash management relationships, especially for domestic services in China and India. There is also a strong demand for cross-border cash management solutions, given that many Asian corporates are rapidly expanding, particularly within Asia-Pacific itself (intra-Asia corridors account for more than half of total trade originating from the region). (See "Rising to the challenge: Transaction banking in Asia-Pacific," page 10.) Here again, the revenue opportunity is substantial for those players with the capability and credibility to pursue it.

### Competitive dynamics

Given the robust growth in the Asia-Pacific region, competition for revenues is likely to be intense. The competitive market is comprised of three categories of players:

- **Non-bank payments players**, including telcos, local payments specialists and global players, will innovate relentlessly to capture revenue. These players will need to differentiate themselves by providing innovative solutions to their existing customers, and by bolstering their offerings both in terms of breadth and underlying technology. Already, players such as Alipay in China, Globe in the Philippines and PayPal across Asia-Pacific are establishing footholds. These firms will also need to improve the economics of their business (that is, grow to scale while improving pricing) and defend against the next wave of innovators.
- **Asia-Pacific banks in home markets** will need to protect their share of customer transactions and consequent revenue pools from both non-bank players and banks in non-home markets. This will have the effect of both reducing the revenue profile of accounts, and shifting transactions away from these banks. Already global banks such as Citi, HSBC and Standard Chartered have significant shares of the large corporate cash management business in many markets. In order to capture revenue in an increasingly electrified payments landscape, these banks will need to upgrade their capabilities and develop a culture of innovation, and exploit their strengths more effectively (e.g., supply-chain flows on the back of lending).

## Where cash is emperor

Japan, with U.S.\$75 billion in revenues, is the fourth-largest country in the world in terms of payments revenues, behind the U.S., China and Brazil. Revenues come mostly from retail current accounts (26 percent) and cards (37 percent).

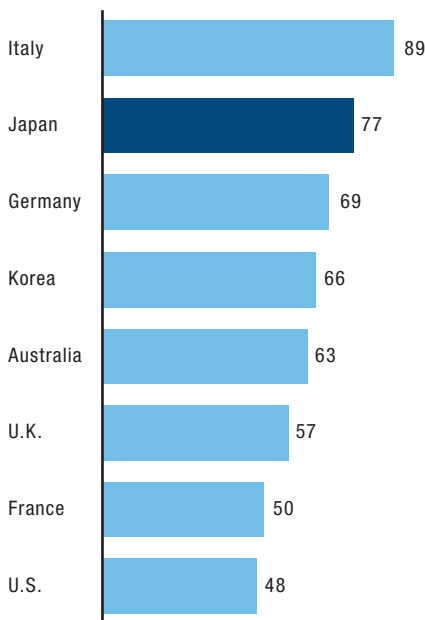
Japan is more cash-based than many other developed economies. Just over three-quarters of transactions are cash, putting Japan between Italy and Germany. High cash use translates into high ATM penetration and use, and indeed, the Japanese withdraw cash from ATMs about twice as often as French or American consumers (Exhibit A).

It's worth noting that although Japanese cards are mostly pay-later cards, card revenues come primarily from fee income (as in most European countries) rather than from net interest income (as in the U.S.). Japan and France are the only countries where charge cards – also called deferred debit cards in some regions – are the most popular card type. Interestingly, Japan also generates more revenues from cash withdrawals and deposits than from credit transfers, direct debit and checks combined. Cash represents more than 10 percent of overall payments revenues in Japan, while in most developed countries cash accounts for only 2 to 3 percent. This is a function of high ATM transaction fees combined with the heavy ATM volume noted above, again confirming Japan's love affair with cash.

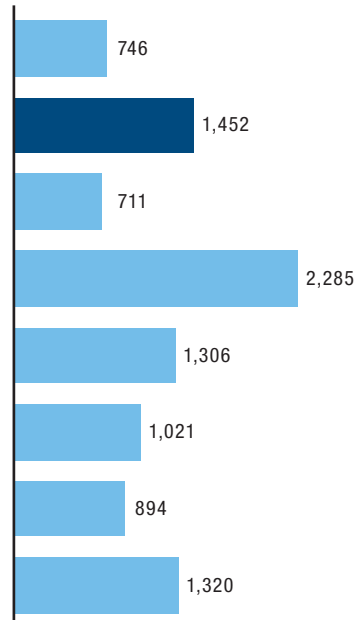
Exhibit A

### Japan has a love affair with cash and ATMs

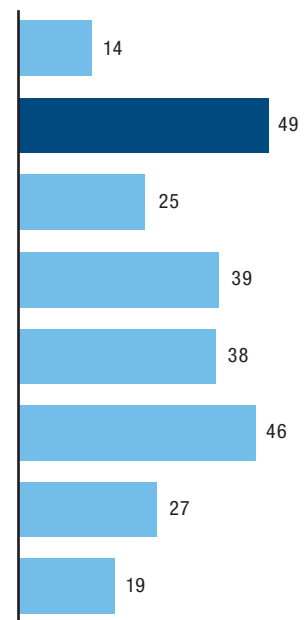
Share of cash in total number of payments, 2010  
Percent



Number of ATM per million inhabitants, 2010



Number of ATM cash withdrawals per capita, 2010



- **Banks in non-home markets**, both Asia-Pacific-based and global, will strive to win in specific niches while balancing regional/global business models with local customization. Given the large differences across Asia-Pacific, they will need to decide which markets and corridors they should prioritize. At the same time they will need to guard against the temptation to impose global business models and decision-making structures without understanding local customers, partners and regulators. It is also important to note that Asia-Pacific banks and non-bank players can upgrade their capabilities rapidly to become formidable competitors. The State Bank of India is a case in point; the recent upgrade of its cash management capabilities in a short time frame

helped it capture a significant share of the mid-corporate space.

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There is little doubt that Asia-Pacific payments revenues will continue to grow at a healthy clip for the foreseeable future, comprising an increasing share of global revenues. Far less clear is the question of which players will win share of these revenues. The strategies pursued over the coming months will help define the Asia-Pacific payments landscape for the next several years.

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