

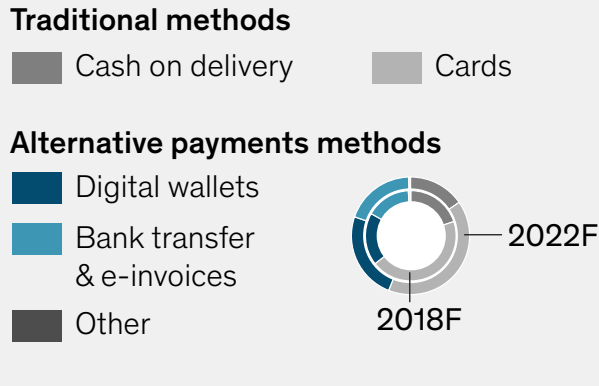
Panorama chart of the month

Digital commerce is driving the rise of alternative payments globally – with quite different outcomes across regions

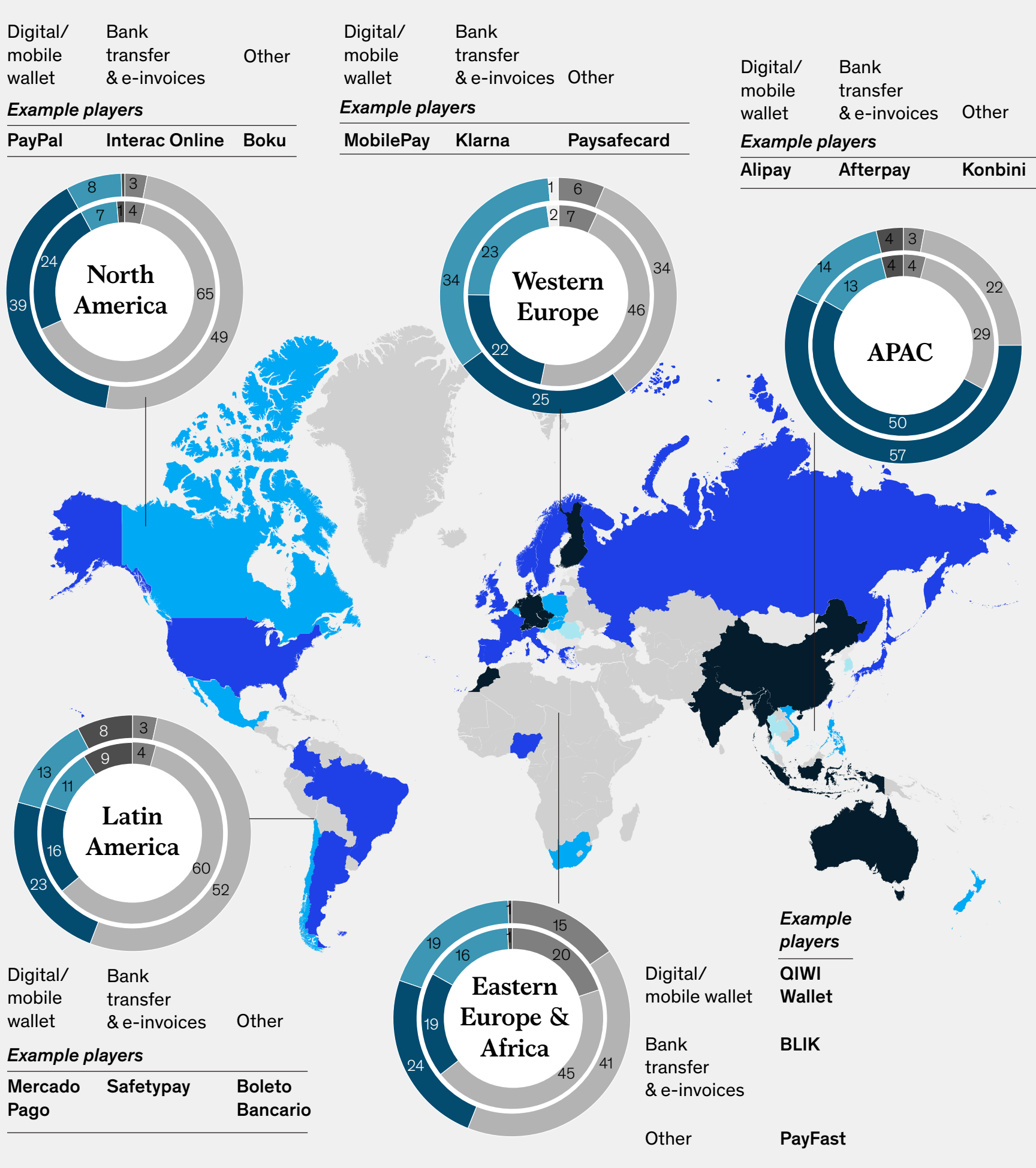
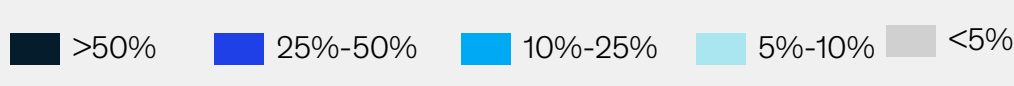


Different payments methods are emerging in different parts of the world

E-commerce payments method shares in percent, 2018



Share of alternative payments methods 2018



SOURCE: Worldpay Global Payments Report; McKinsey analysis

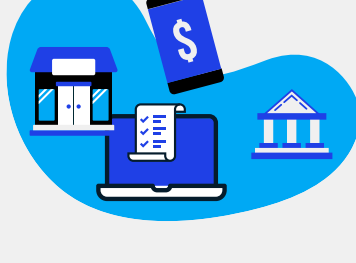
Digital/mobile wallet

Mobile application that allows individuals to make e-com or in-store purchases at merchants (closed-loop, bank transfer based, or card linked)

Bank transfer

Consumers pay for goods using their online bank and are either redirected to their bank or select their bank from a provider's webpage

What are alternative payments methods (APMs)?



Others

These include mobile carrier billing, cryptocurrencies, and other emerging technologies

E-invoices

Payments method that allows consumers to pay for (one or more) purchases after delivery, either in one transaction or in multiple installments

Prepay

Allows consumers to pay e-com merchants with vouchers that were previously bought with cash or other payments forms

Postpay

When a consumer selects a product online and pays for it at an affiliated store to finalize the online order

Payments services account for more than 35 percent of global financial services revenues, and have defied the gravity of a slow banking industry, growing 6 percent in 2018.

The driving forces are electronification and the rapidly increasing digital share of retail commerce; consumer digital payments amounted to \$3 trillion in 2017.



Payments services are also critical considering payments also provide a disproportionate amount of customer data and engagement – not just revenue and profitability – which are paramount to the future of not only banking, but the boundary-blurring ecosystems that are now taking shape.

Digital payments vary by region

From 2012 to 2017, traditional cash and cards' market share in digital commerce dropped from 60 percent to 49 percent globally. APMs have spread at a furious pace, but the forms they take vary greatly, with a vast array of customer preferences and different infrastructures producing a fragmented market in which there is no clear winner. The future is here – but it's unevenly distributed.

Consumers in **Asia-Pacific** use APMs the most, especially Alipay and WeChat Pay. This is not by accident—they serve the two largest e-commerce marketplaces in China, indeed the world. New methods are following and rapidly winning customers in the largest emerging economies: examples include GrabPay in Philippines, GoPay and OVO in Indonesia, Paytm in India,

Convergence or divergence?

Will the APM space remain globally fragmented, or will the market consolidate, as other parts of the payments industry

and Momo in Vietnam. Japanese consumers, on the other hand, are still fond of cash and thus often pay at their local 'konbinis', with cash-voucher kiosks present on nearly every city block.

Western European payments methods such as iDEAL and Klarna have successfully mainstreamed their services. Nearly all banks now participate, allowing consumers to pay by bank transfer in just a few clicks. In Eastern Europe the story is different, as cash on delivery still rules due to fears of card fraud and a strong preference to receive goods before payment.

Historically card-focused **North Americans** still have a strong affinity for these payments methods. However, PayPal is prying consumers away with products like Venmo and PayPal Credit, and start-ups Klarna and Affirm's deferred e-invoice solutions offer strong alternatives to credit cards, with similar APRs.

have done recently (as seen in the FIS-Worldpay and Fiserv-First Data deals)? With more than 90 percent of customer engagement and customer data gathering in payments, the answer will likely have much to say about the fate of global commerce.

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Panorama Financial Institutions and Insights Consulting (PFIC) is McKinsey's banking and insurance capability center. It is a key driver of financial expertise, capabilities and insights, including the development and dissemination of more than 15 proprietary knowledge assets.

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