

WHITE PAPER SERIES: INTRODUCTION

Commercial Payments

JULY 2017



Background

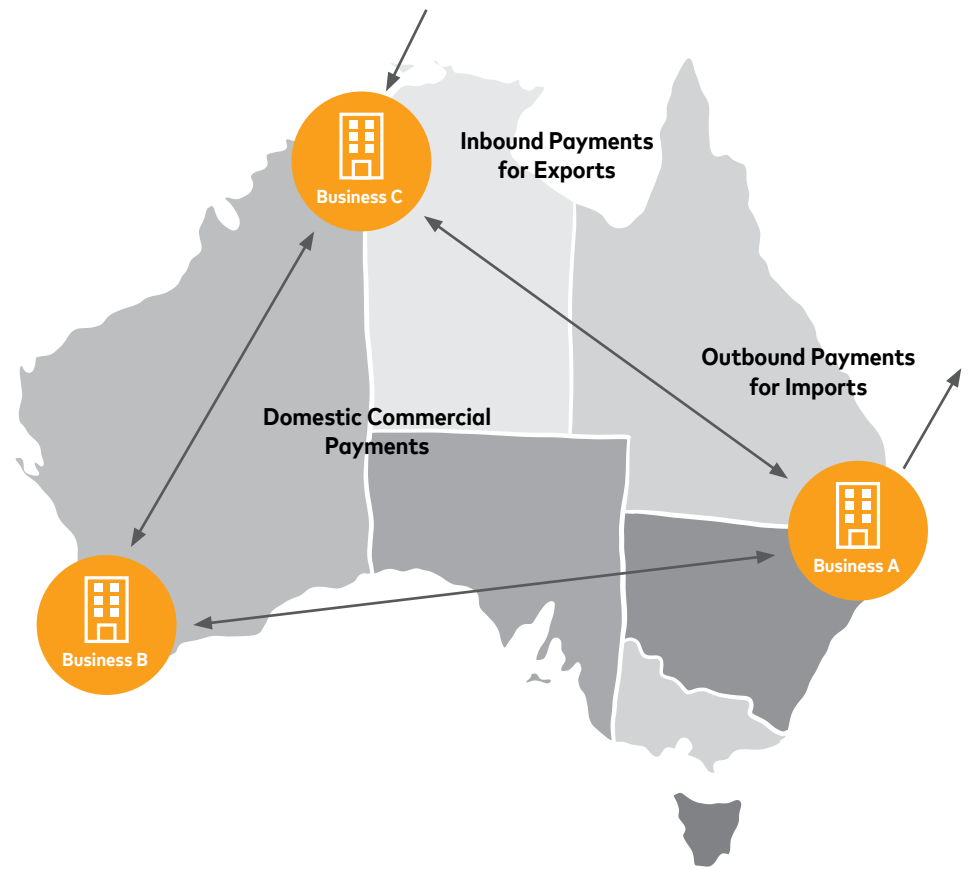
The commercial payments market is a dynamic and growing sector. Whilst the consumer payments market has received greater focus to date, the commercial payments market is much larger – we estimate there are \$3.5 trillion¹ of commercial payments made in Australia per annum versus approximately \$1.4 trillion of consumer payments.

Through this series of papers, we will examine the procure-to-pay process and new developments in this area, including those related to trade and international payments. We will also provide case studies of businesses of varying sizes and behaviours and attitudes impacting their payment processes.

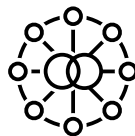
¹Except where otherwise stated, "\$" refers to AUD

Who should read this?

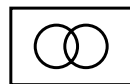
- Bankers seeking to increase the depth of commercial banking relationships
- Card professionals looking to explore new sector opportunities
- Company treasurers who wish to reduce costs, streamline processes and free cash



Further, we will explore the potential for greater automation and integration in commercial payments, highlighting the benefits that these can bring in terms of ease, speed and working capital.



\$3.5 trillion of commercial payments made in Australia per annum

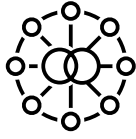


Addressable commercial cardable expenses in excess of \$880 billion



Less than 20% of cardable expenses are actually being paid by card

Mastercard has partnered on this series with RFI Consulting (RFI), an independent consulting firm focused on the financial services sector and with a strong specialisation in the payments industry.

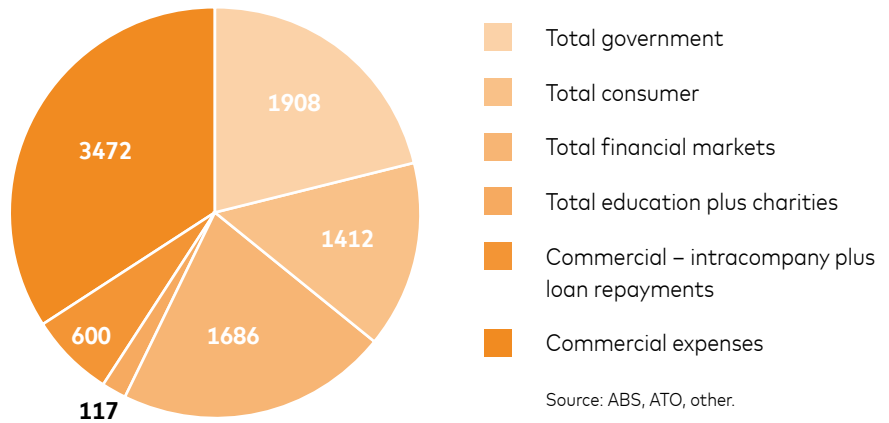


Market Size

In their Global Payments 2015 report, McKinsey & Company estimated global transaction values (the amounts being transferred between parties) to be USD 816 trillion, with more than 85% of this, or USD 705 trillion, being commercial (business-to-business) transactions. Commercial-related transactions consist of payments made to other businesses and payments related to employment – wages and salaries, superannuation and employee expenses.

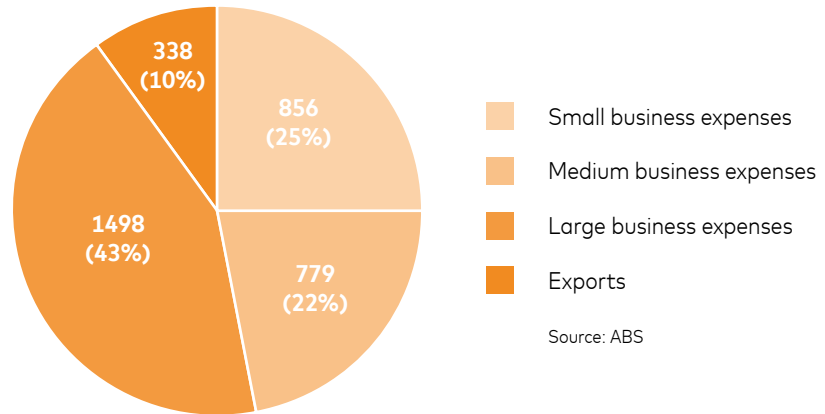
Total Payments in Australia 2013-14 (\$ billions)

RFi Consulting has estimated **total payments in Australia** for the 2013-2014 year were around **\$9.2 trillion**. Whilst the consumer payments market receives greater attention, the commercial payments market is much larger – we estimate there are **\$3.5 trillion of commercial payments** made in Australia per annum versus approximately **\$1.4 trillion of consumer payments**.



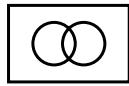
Note, these figures do not allow for financial flows (payments) which occur within companies, such as between parent companies and their subsidiaries. We estimate these could represent a further \$400 billion, taking the total close to four trillion dollars. Additionally, it does not include commercial loan repayments (a further \$200 billion per year) or capital payments, which for the private sector as a whole (consumer plus commercial) is a further \$350 billion.

Annual Commercial Payments in Australia (\$billions)
Total = \$3,472



The Australian commercial payments market involves more than two million companies employing over 10 million people. For every large business (employing 200+ people), there are over 500 small businesses (employing less than 20 people each)

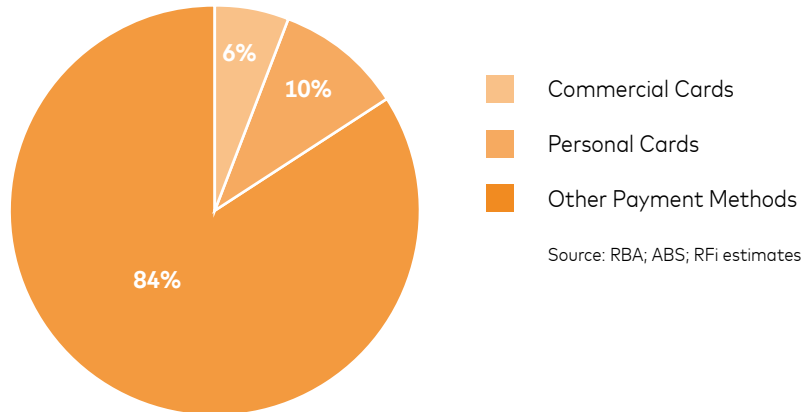
Small businesses have less than 20 employees; medium businesses between 20 and less than 200 employees; large businesses more than 200 employees.



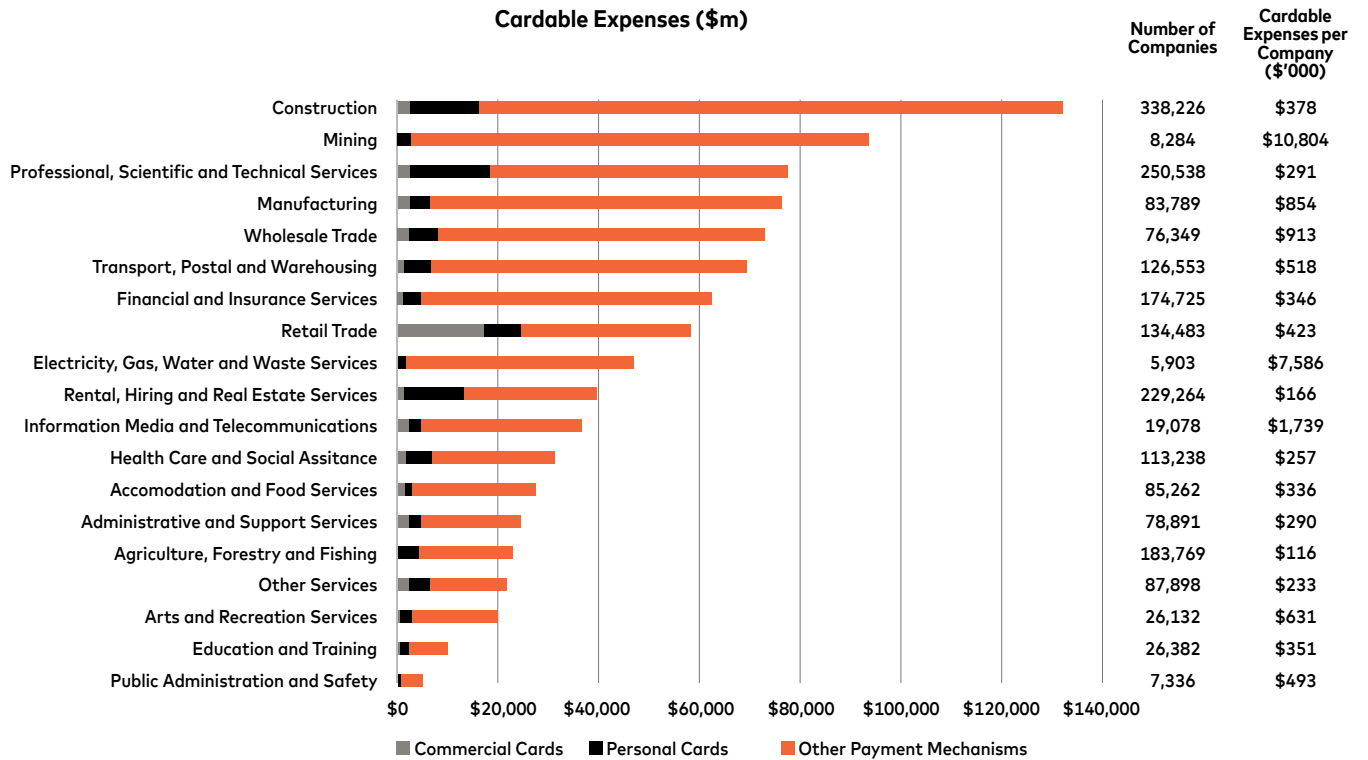
Card Expenses

Cardable Expenses Total = \$880 Billion

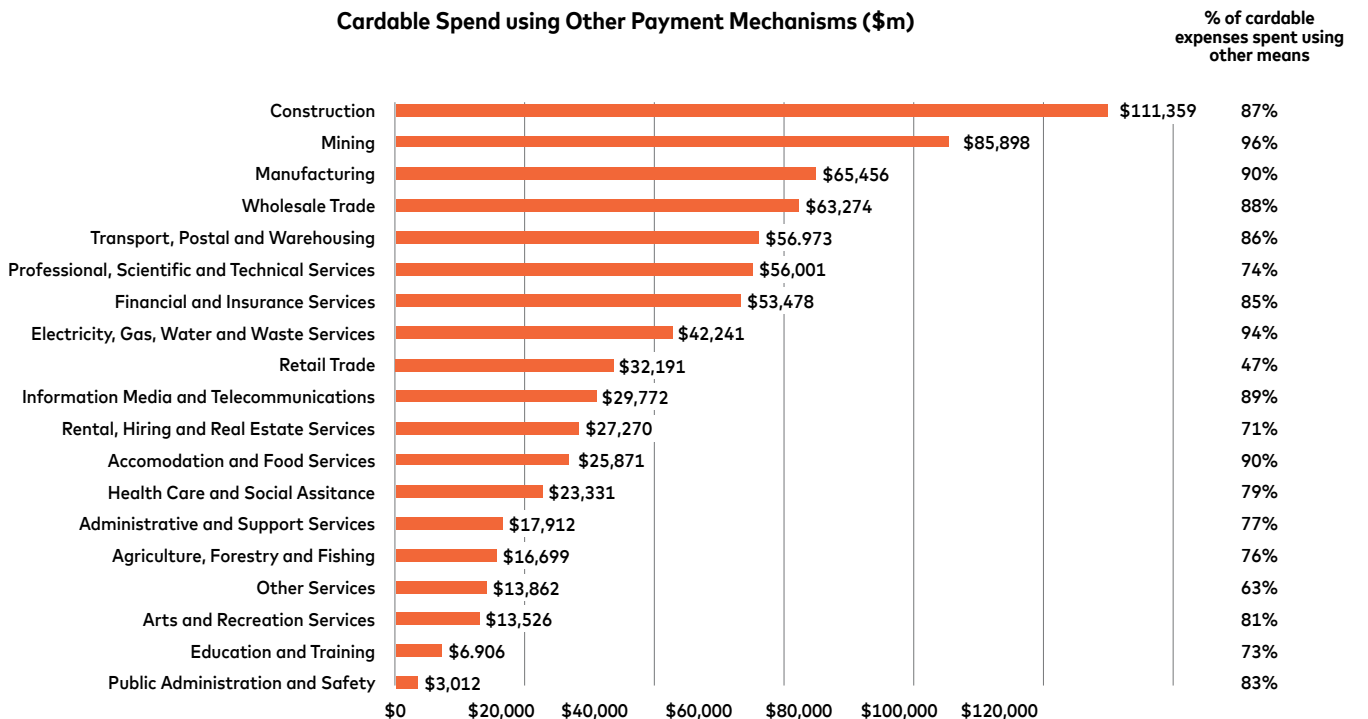
RFi has estimated that more than a **quarter of commercial expenses** (business payments to suppliers) **could be paid for with corporate or commercial cards**, but that today **less than 20%** of these potentially 'cardable' expenses **are actually being paid by card** – either personal (consumer cards of employees) or company cards.

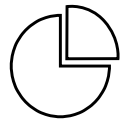


We estimate total cardable expenses (excluding labour costs, tax and interest expenses and much of the COGS) amongst Australian businesses to be in excess of \$880 billion. The potential for cards to be used for payment of expenses varies widely between industries. A few industries stand out as having significant potential due either to the size of the industry or the high level of average expenses per company.



In most industries, well over two-thirds of cardable expenses are being paid via other mechanisms.



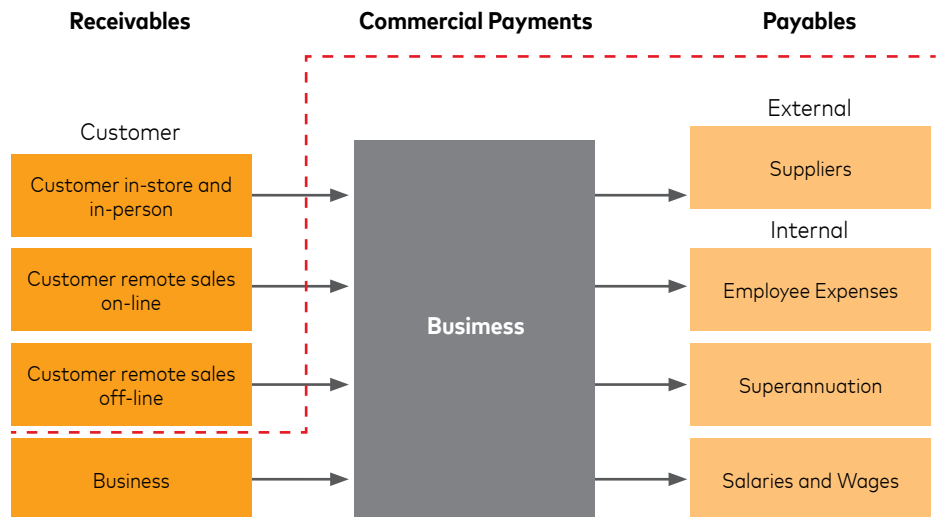


Revenue Pool

The revenue pool available to payment providers from commercial payments in Australia is substantial and can be expected to grow as the economy expands and more payments are made electronically. Components of this revenue pool include account and transaction fees, merchant service fees and liquidity revenue (from outstanding balances), as well as foreign exchange margins.

RFi estimates for the **Australian market**, based on 2015 banking data, that the **revenue pool** available to payment providers from **commercial payments** is in the order of **\$12 billion annually**.

McKinsey & Company² have estimated the global payments revenue pool (commercial and consumer) for payments providers for 2014 to be USD 1.7 trillion and have forecast it to increase to USD 2.3 trillion in 2019. The Asia Pacific region is by far the largest and fastest growing component of the global total. The revenue pool for payment service providers in Asia Pacific for 2014 was estimated to be USD 740 billion having risen 11% over 2013. Within this, revenue from commercial transactions represents 63% or USD 466 billion.



2 McKinsey Global Payments Map

Although growth is forecast to be lower going forward (CAGR 6% for 2015-19), Asia Pacific is expected to represent USD 1 trillion per annum in total payments revenue by 2019. Assuming commercial payments maintain their proportion of the total, this will be a market of over USD 600 billion in revenue in just a few years.

We estimate **total cardable expenses** (excluding labour costs, tax and interest expenses and much of the COGS) amongst Australian businesses to be **in excess of \$880 billion**. Today, **less than 20%** of these potentially 'cardable' expenses **are actually being paid by card**. However, potential for cards to be used for payment of expenses varies widely between industries.

Between them, Australia's 'Big 4' banks report over \$86 billion in annual revenue, \$68 billion of which is attributable to the Australian market. Rounding up to include second-tier banks and other players in the market, we have estimated total banking revenue from Australian activities to be \$85 billion. Of this, we estimate the commercial sector to represent almost \$31 billion in revenue.

Payments revenue makes up about 40% of banking revenue globally. Although probably not applicable to the Australian consumer banking market, which is heavily skewed to home lending and which generates proportionately low payments revenue, it may apply to the Australian commercial banking market. Hence applying this to the Australian market gives us an estimate of \$12.3 billion (or close to USD 10 billion) of revenue currently made annually from commercial payments.

Next in the series: Examining the regulatory environment

For more information contact us at ask@mastercard.com