The Payments Transformation Race: Criteria for Success

September 2019

TABLE OF CONTENTS

LIST OF FIGURES

EXECUTIVE SUMMARY

The Payments Transformation Race: Criteria for Success, commissioned by Icon Solutions and produced by Aite Group, takes a deep dive into the current state of payments transformation at top global banks. As the silos between retail and corporate payments remain mostly intact, this report focuses primarily on corporate payments and infrastructure. The information provides a view into how banks define payments transformation, the priority this initiative has within the institutions, and key data points such as status of real-time payments, profitability of payments, risks of inaction, and funding of initiatives.

Key takeaways from the study include the following:

- While every institution defines payments transformation differently, every definition includes a reference to the importance of speed—this includes speed of payments as well as speed of systems and information that keeps up with the increasing speed of change in the industry.
- Real-time payments are one of the primary drivers of payments transformation efforts at most financial institutions; however, many banks are still in the process of implementing real-time capabilities. Even with the improvements that SWIFT gpi has made in transparency and speed of cross-border/cross-currency payments to get closer to a real-time environment, few institutions have the ability to offer true cross-border or cross-currency real-time payments.
- Some banks have enabled real-time payments but have stretched old technology to support the new capabilities. These banks will still have to contend with payments transformation efforts, as the confines of aged infrastructure will become more restrictive over time, and as go-to-market efforts need to be quicker and more flexible to support new technology demands.
- Payments are struggling to maintain profitability hurdles as the total cost of operation (TCO) continues to rise and margins continue to thin. Streamlining and updating back-end systems to create a foundation for future payments infrastructure is a key component to long-term success.
- The true success of a payments transformation effort is not immediately measurable, as the long-term viability of the infrastructure will not be known for a decade or longer.
- Completing a high-level self-assessment can help financial institutions of all sizes identify their strengths and opportunities, and benchmark themselves against best-in-class industry leaders.
- Banks that have a clear and robust payments transformation plan are more profitable than their competitors, widening the gap between the winner and losers in the transformation race.

Payments transformation will be the biggest challenge facing many banks in the coming years. Banks that are prioritizing payments transformation not only are future-proofing their payments infrastructure, but they also have a clear competitive advantage in growing market share (without considering the sustainability of the current transaction-based revenue model) over banks that are further behind in the transformation. Additionally, new market entrants do not have the same legacy restrictions to circumvent, which is adding increased pressure to the market, at least for the banks that understand just how much is at stake. Payments infrastructure should bring down the costs associated with executing payments and allow value-driven services such as payments automation and data services to drive new, sustainable, and untapped revenue streams.

INTRODUCTION

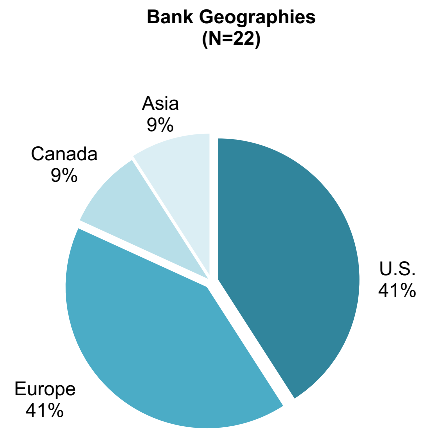
The payments transformation journey can be long and cumbersome for all banks. As financial institutions are faced with diminishing profitability of their payments business and new internal and external demands for faster payments and data, it has become necessary to reevaluate current infrastructure and payments capabilities. With more complex needs and more clients than smaller banks, the largest banks in each region need to be leaders of transformation efforts, but that can be challenging with their overwhelming size and internal complexity. However, this is not necessarily true as even the top banks are struggling to understand what is necessary to future-proof their payments technology investment. Unfortunately, success in payments transformation initiatives cannot and will not effectively be measured over the short term. While there are some important short-term gains, success will be determined by how the foundational and functional infrastructure and capabilities hold up over time and whether they provide a path for revenue and growth over the next decade and beyond. With the immediate and significant funding demands, this can create a significant challenge.

This white paper helps banks understand the drivers for payments transformation and provides a guide for self-assessment. Almost all banks agree that there is significant risk to not moving forward with payments transformation, but few have progressed significantly at this point, and they all have varying timelines for implementation. This delayed execution provides a gap in which new entrants and faster-moving competitors can take advantage. This white paper also provides a view of the top global banks' priorities around transformation efforts, profitability of payments, in-house versus outsourced development, and immediate next steps. Financial institutions of all sizes will benefit from this information and self-assessment guide, as the future of payments is essential to every provider in the market.

METHODOLOGY

This white paper leverages the knowledge of Aite Group analysts as well as data and information from a 2019 survey of 22 top global banks. Executives interviewed have titles such as head of payments, head of innovation, head of treasury, senior product manager, director, and managing director. Regions represented include the U.S., Canada, Asia, and Western Europe. A breakdown of the geographies can be found in Figure 1.

Figure 1: Bank Geography



Source: Aite Group survey of 22 top global banks

DEFINING PAYMENTS TRANSFORMATION

For as many banks as there are across the globe, there are that many variations of the definition of payments transformation. Given the complexity and differences from bank to bank in architecture and legacy platforms, it will be one of the biggest challenges facing banks over the next five to 10 years as they look to maintain their market share under pressure from newcomers who are not "shackled" by legacy technology. At a high level, the phrase is used to describe a large technology initiative that modernizes the payments infrastructure of a financial institution. Talking with bank executives provides a more detailed view of the components of payments transformation. A few key themes resonate regardless of size or location. These include scalability, elimination of paper, and engagement with clients. However, one theme tops them all—speed. Speed is the number one goal and driver of payments transformation according to Aite Group research.

Some key phrases from financial industry professionals that help to provide a more detailed definition of payments transformation include the following:

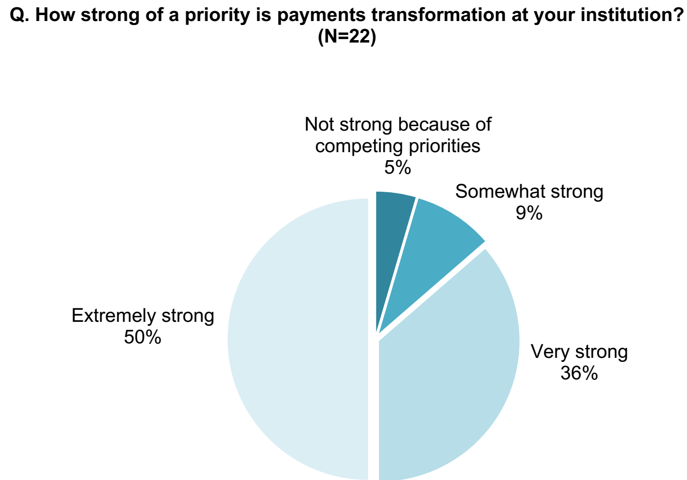
- Acceleration of speed of payments and settlement
- Digitization of payments and remittance information
- Better visibility of payments transactions from end to end
- Frictionless end-to-end payments processing
- Infrastructure to enable new payment products and technologies with a speed to market that equals or exceeds market opportunities
- Consolidation of legacy platforms into a payments hub for more efficient processing
- Ability to verify status of all payments at any time
- Payments that are tied to people and engagement
- A product suite that meets future clients demands and a modernized payments system
- A focus on data

Putting these terms together, the demands of a payments transformation effort are obviously difficult and complex. Even though every bank has a slightly different definition, the objective is the same: faster payments and faster data to meet the future demands of clients as well as to protect revenue. With this definition, this report will look at the factors and components of payments transformation efforts within banks.

TRANSFORMATION PRIORITY

With competing priorities in all functional areas at banks, it is sometimes difficult to find the right balance and order of initiatives. However, because one of the primary functions of a financial institution is to move money, the priority of payments initiatives in a changing environment should be fairly clear. Payments are the bedrock of customer engagement and should be the primary focus of the customer experience. Payments also hold the valuable data that creates the opportunity to monetize ancillary services by using that data to automate, forecast, and productize payments. This is the case for most banks, with 86% of top global banks stating that the payments transformation efforts are either very strong or extremely strong at their institution (Figure 2).

Figure 2: The Priority of Payments Transformation



Source: Aite Group survey of 22 top global banks

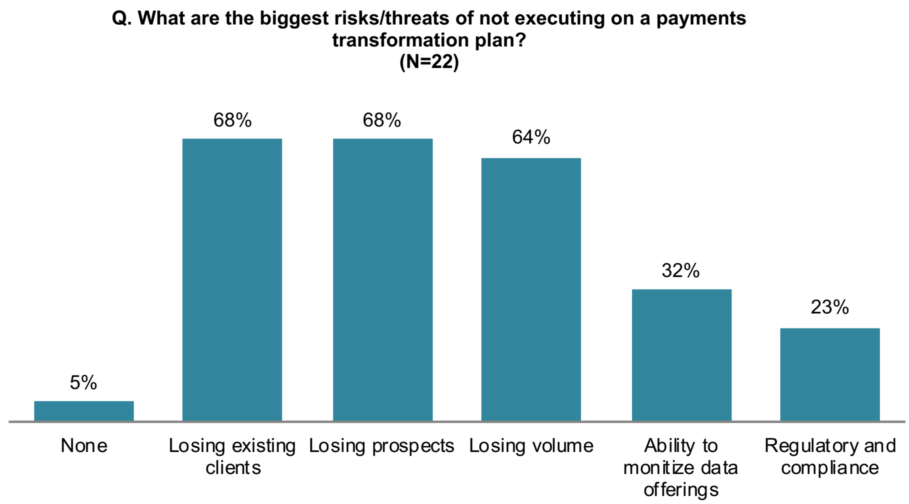
Banks that are not prioritizing transformation or modernization efforts around payments seem to be outsiders and are likely at risk of losing valuable clients and revenue in the coming years. Some banks have even stated that the term “extremely strong” is an understatement for the importance of their payments initiatives, as there is nothing that is more important to their institution to ensure future growth and success in an increasingly competitive and demanding environment.

WHAT IS AT RISK

The majority of banks that view payments transformation as a high, if not the highest, initiative at their institution understand the risks of inaction as well as the benefits that are to be gained. Current legacy systems, in addition to being costly to run in their current state, are not scalable or resilient enough to support client needs heading into the next decade. While these foundational systems have mostly sufficed for upward of 30 to 40 years with upgrades and improvements along the way, the days of batch processing and fragmented payment functionality are numbered. Businesses, especially businesses with a large volume of payments and, consequently, data, are feeling the pressures of technology and differentiation in all aspects of their operations. They need to produce goods and services faster and cheaper. When it comes to their accounts payables and receivables tools, businesses need a bank that can help them be more efficient so they can focus on their core operations.

The risks of lost and missed revenue opportunities are quickly becoming realities for banks that cannot provide fast, efficient, and comprehensive payments services. Few banks are not hyperaware of these risks. At top of mind for many banks is the lost client and prospects opportunity, with 68% of banks citing these as the biggest risks in not actively pursuing payments transformation efforts (Figure 3). Along with these lost clients is the volume that comes with them. A few clients can represent a large percentage of transactional volume at a financial institution. Because of this, 64% of banks say that this lost volume is the biggest threat.

Figure 3: The Risk of Not Moving Forward With Payments Transformation



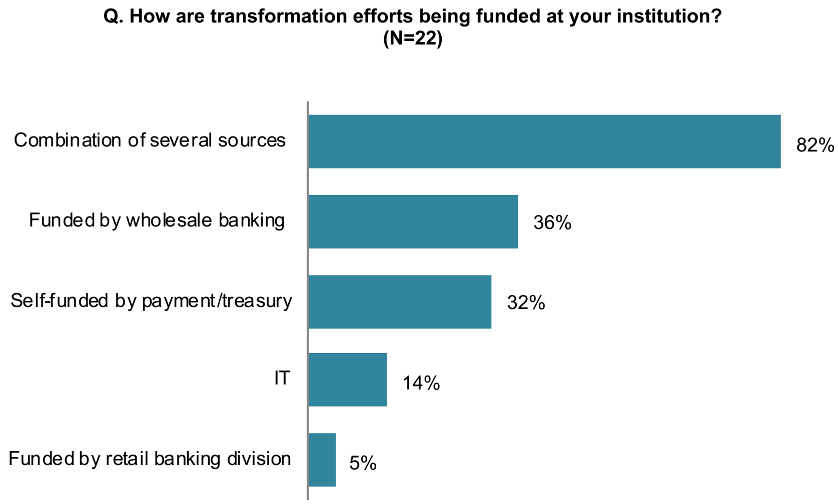
Source: Aite Group survey of 22 top global banks

For some banks, the inability to monetize the data offerings is the biggest concern. However, without the protection of clients and the transactional volume of those clients, there are fewer opportunities to see growth in ancillary data offerings. The banks that consider data monetization the primary risk of inaction are further along on their transformation journey and are thinking about the long-term pricing and structure of payments and revenue models. In a future state, this number should be much bigger as more banks shift from a transactional revenue model to a more robust value-added and data-driven model. While regulatory compliance is always table stakes, many banks view this as outside their payments transformation scope, as adoption is mandatory and non-negotiable at an enterprise level.

FUNDING THE EFFORTS

With the risks being clearly defined, the most important step toward action at any financial institution is securing funding. Again, competing priorities across the bank are also seeking funding and prioritization. One advantage of payments transformation efforts is the universality of money movement needs as a core function of the bank. Payments transformation also indirectly touches many areas of the bank. Because of this, 82% of banks report that funding transformation efforts will be obtained from a combination of sources across the institution (Figure 4). However, it should be noted that IT and retail have little impact on or contribution to funding, but they have a fairly significant influence on the roadmap at many banks. At many institutions, primarily in North America, retail has paved the way for faster payment expectations.

Figure 4: Funding Transformation Efforts



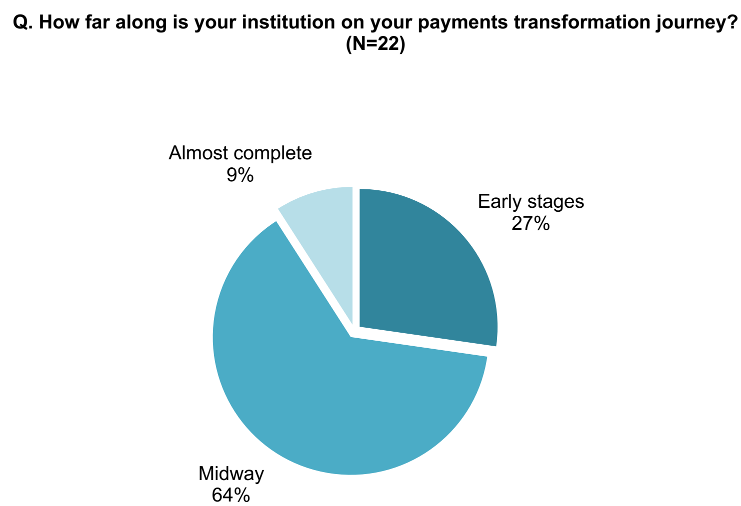
Source: Aite Group survey of 22 top global banks

Many banks have a large portion of their funding coming from self-funding efforts or the wholesale banking division level, in which the majority of revenue and responsibility for payments lies. Even with this, it is difficult to have the multiyear support without contributions from across functional areas of the bank that are impacted by payments activities.

PROGRESSION ALONG THE JOURNEY

Understanding the priority of payments transformation efforts in a phased approach, outlining the risks of inaction, and securing funding are all foundational to the execution of a strategy. No bank, regardless of how far it has come, believes that it has completed its payments transformation journey. Few banks believe that they are even close to completion (Figure 5). The majority (64%) of banks around the globe consider themselves midway through their journey, and 27% of them report being in the early stages. Interestingly, several banks state that they will never be more than midway, as the process will never be complete.

Figure 5: How Banks Rate Their Progress on the Transformation Journey



Source: Aite Group survey of 22 top global banks

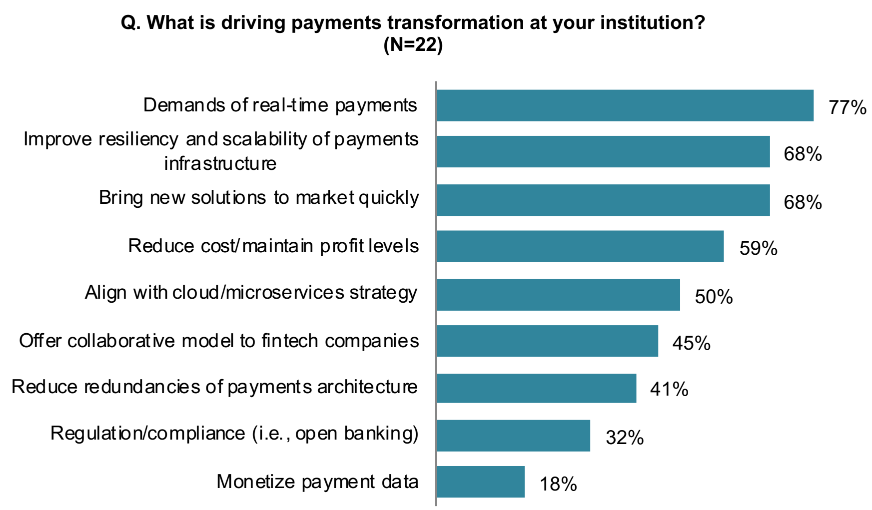
Payments and the technology that enables more efficient and faster payments will continue to evolve. With that, reaching utopia is a moving target. Banks that believe they are near the end of their journey may need to consider a broader view of the payments landscape that addresses how the technology implemented today can be flexible and adaptive enough to support needs and functionality 40 years or more into the future. To undertake a complete modernization effort every few years would not be feasible. Some systems, such as the ACH system in the U.S., have been in place for over four decades. With the creation and advancement of new payment rails and more efficient ways to capture and analyze payment data, it is essential that architecture be able to evolve with technology advancements.

SUMMARY OF DEMANDS

When considering the high priority and focus on continued progress of payments transformation efforts at financial institutions around the globe, it is clear that there are strong motivating drivers. For the multiyear funding and resource commitment, market forces have to be compelling. At the top of the list of drivers is the demand for real-time payments, with 77% of banks reporting this as their primary driver (Figure 6). Several other significant drivers are also influencing the roadmap and continued execution of payments transformation efforts. Forward thinking about the banking infrastructure into the next decade is again critical here. The payments architecture has to be built for future needs with enough flexibility for banks to respond to market drivers at an exponentially faster rate than ever before. As it is becoming increasingly expensive to maintain legacy, fragmented systems, the long-term need to reduce back-end costs is also a top driver for over half of banks (59%).

As technology continues to mature and become more assessible, some more complex drivers begin to create increased opportunity and excitement. Forty-five percent of banks recognize the benefits of creating a collaborative model to welcome the expertise and functionality provided by financial technology companies. Many financial institutions recognize that they cannot build everything, but they can build a foundation that allows them to easily partner with fintech vendors with core strengths that augment their own capabilities. This includes access to real-time rails, overlay services, and value-added services available in API libraries.

Figure 6: Drivers for Digital Payment Transformation



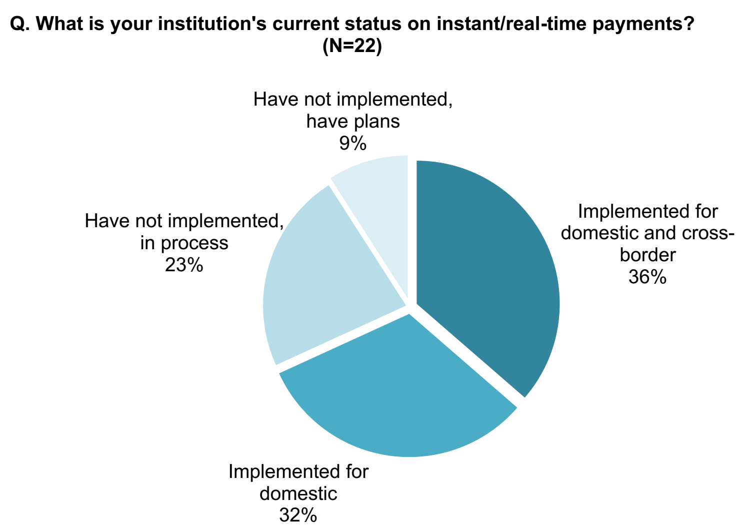
Source: Aite Group survey of 22 top global banks

REAL TIME IS IN THE DRIVER'S SEAT

While the list of drivers of payments modernization efforts demonstrates the richness of possibilities from a methodical and strategic approach, the driver that ties them all together and forcefully moves the market forward is the increased adoption of real-time or instant payments.

While North America seems to be furthest behind in the implementation and adoption of real-time rails, banks across the globe are still finding their footing when it comes to real-time payments and the business case driving it. As for the largest banks in Asia, Canada, U.S., and Europe, all at least have plans in place for the implementation of real-time payments, although the 9% of banks that have not implemented it (at least for domestic payments) are quickly becoming outliers (Figure 7). Sixty-eight percent of large banks have implemented real-time payments, with 36% of those also offering real-time cross-border capabilities. Legacy batch processes are not able to effectively support real-time payments over the long term. Thus, real time is the primary driver that is forcing banks to execute a strategy that provides the scalability, flexibility, and efficiencies needed to accommodate new payments and offerings.

Figure 7: Real-Time Payments Offering Status

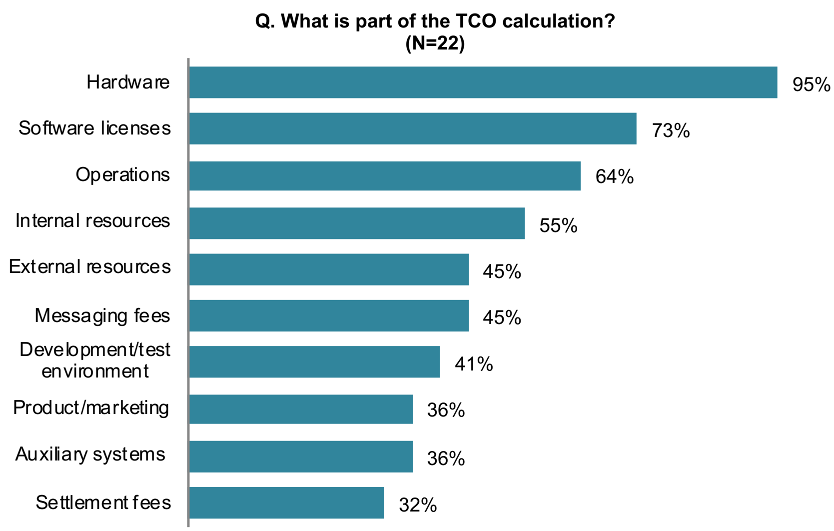


Source: Aite Group survey of 22 top global banks

EXPENSES VS. REVENUE

Banks are investing more in payments technology and are not getting immediate return on that investment from existing payments volume. The biggest of these expenses is the hardware component of payments applications. Almost all top-tier banks cite hardware not only as part of the TCO calculation (Figure 8) but also as the biggest expense ahead of software licenses and operations.

Figure 8: Components of the Total Cost of Ownership of Payments

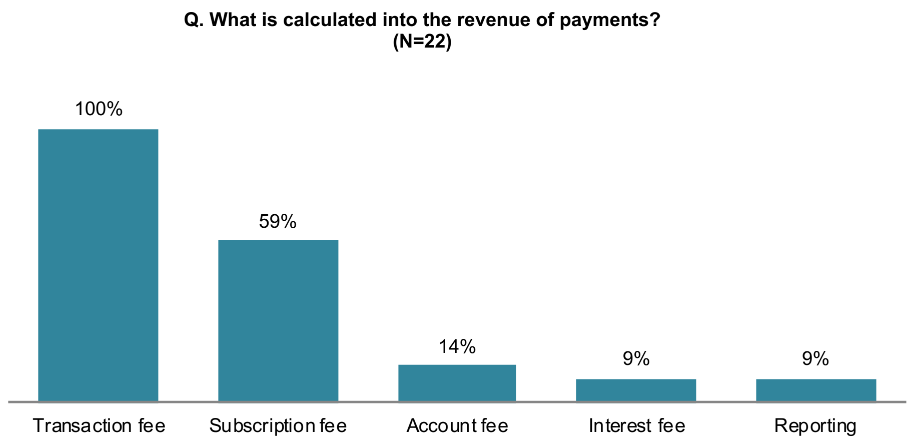


Source: Aite Group survey of 22 top global banks

What is most interesting is that there are so many inputs into the TCO of payments, but with limited straight-forward revenue generators. While there is a broad interpretation across banks as to the expense allocations that are calculated (or should be) as part of the TCO, revenue is allocated with a narrow lens. While payments activity has an impact on almost every other product set of the bank, the transaction fees are primarily all that are counted, with 100% of banks reporting transaction fees as a key, if not the only, component of payment revenue (Figure 9).

Some banks are also able to create fee revenue from the subscription or account fee, but this is not a value-added service that provides any benefits to clients' loyalty—it just comes from fees that exist to cover the TCO of the payments business. Only 9% of top-tier banks consider the reporting from payments data as a part of the revenue stream. This is expected to shift over time as banks are able to effectively monetize payments data and start an inevitable shift from a transactional revenue model to a more data-driven/value-added services model.

Figure 9: Components of the Revenue Stream for Payments

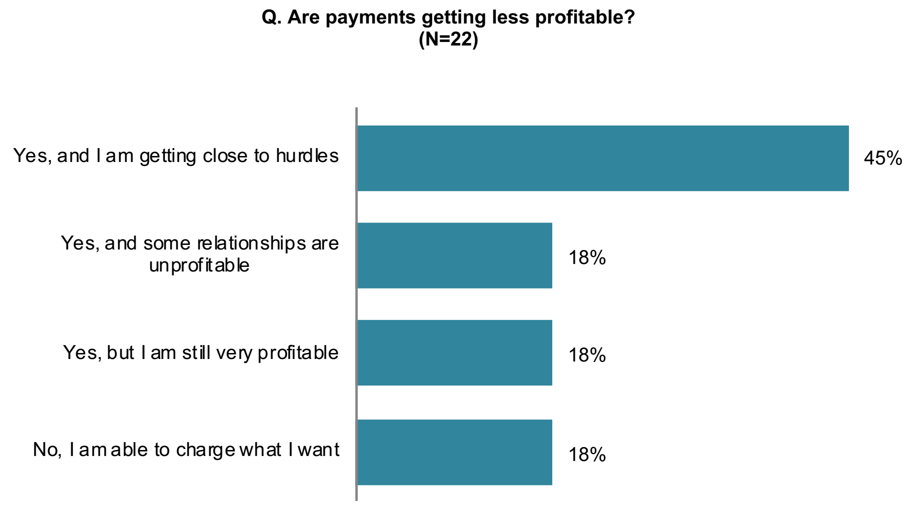


Source: Aite Group survey of 22 top global banks

CHARGING FOR PAYMENTS

With the large investments that banks are making in payments transformation and the commoditized nature of payments as a core bank function, the profit margins for these payment transactions are diminishing. This is a challenging position for banks to be in. For the protection of future revenue, it is necessary to undertake payments transformation initiatives with the understanding that the return on investment (ROI) will not be immediately seen and may, in fact, even drive profit levels further down before the benefits of the new infrastructure can be realized. When looking at banks below the top tier, the quandary becomes even more difficult. For these banks, the market opportunity can be significantly smaller, even though the same functional demands are evolving, although at a slower pace. Already, 63% of top-tier banks are reporting that they are either close to or below profitability hurdles for payments (Figure 10). Only 18% of top-tier banks report that they are still able to charge what they deem reasonable and appropriate, even if that is a premium rate.

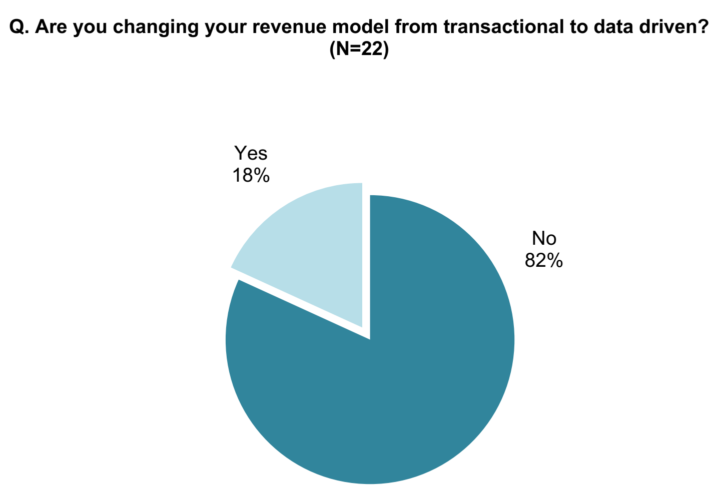
Figure 10: Profitability of Payments



Source: Aite Group survey of 22 top global banks

As previously mentioned, it seems inevitable that there will be some shift in revenue generation calculations and models for payments in the future. As transactional friction continues to diminish, the data accompanying a payment has proven to be extremely valuable and worth paying for. Actionable and insightful data analytics will be the new way to monetize payments. Only 18% of banks report that they are in the process of shifting from a transactional revenue model to a data-driven revenue model (Figure 11). However, even more banks are thinking about the shift and planning for how to execute on this in the future. While the shift will take time, the refreshed model will allow banks to focus on the deeper needs of their clients, beyond just sending and receiving payments.

Figure 11: The Revenue Model for Payments



Source: Aite Group survey of 22 top global banks

THE NEED TO RECOUPERATE REVENUE

For banks that have seen a decline in the profitability of payments, it has become necessary to seek ways to replace that lost revenue by either creating a new revenue stream or reducing costs. Most top-tier banks are counting on the efficiencies created by new payments technologies to be enough to offset losses, but this takes time. Although never without challenge, more top-tier banks are able to justify and support a delayed ROI than their smaller counterparts. There are other ways that banks plan to recuperate some of the declining payments revenue:

- Change business models driven by open banking and customized products and services
- Make payments stickier through data analytics offerings and API-based offerings
- Ensure real-time payments will be less expensive than other payments from implementation
- Educate clients on services-based product offerings such as real-time payments and data-driven reporting
- Improve levels of integration with ERP systems to increase cross-selling opportunities
- Enhance infrastructure to enable new payments products and technologies with a speed to market that equals or exceeds market opportunities

THE LINK BETWEEN PRIORITY AND PROFITABILITY

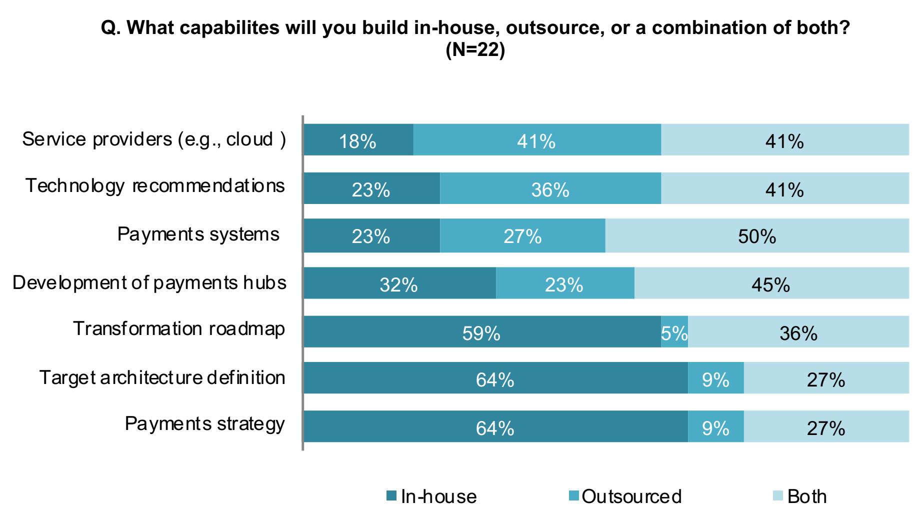
The challenges around payment expenses versus revenue will continue to confront banks for the foreseeable future because of the time it takes to deliver ROI. While this can push down the level of priority due to competing projects that have more immediate ROIs, it is important for banks to think long term and keep the potential losses of clients, prospects, and transactional volume top of mind. The risks of inaction are real and unavoidable. A delayed ROI may be painful in the short term, but being significantly behind competitors and not able to meet client needs will be even more painful in the coming years.

As referenced in Figure 10, only 20% of top-tier banks are able to charge what they want for payments. Another 15% report that even though profitability is declining, they are still enjoying high payments profitability. Digging deeper into this data, these banks report the highest level of priority of the payments transformation efforts at their institution and have the most forward-thinking views of the long-term ROI and benefits. These banks have made an organizational commitment to focus on speed to market, real-time payment offerings, and the benefits they offer to their clients. Banks that can help clients navigate the complex payments landscape by investing in the technologies that help make payments fast and frictionless will continue to enjoy premium pricing for that value.

THE VALUE OF COLLABORATION

Many banks have realized that not every technology component needs to be or should be developed in-house with internal resources. This can be taxing on resources that are already stretched across initiatives and that may not have the in-depth expertise required. In fact, even when planning the strategy and roadmap, it can be valuable to consider insights from industry experts at fintech firms that have specific expertise in a functional area. Few banks believe that the transformation undertaking can be handled completely in-house. However, some functions are more likely to be outsourced than others. The payments strategy, architecture definition, and roadmap are more likely to be developed in-house (Figure 12). The development of the payments hub, payments system, technology recommendations, and cloud services are most likely to be partially or completely outsourced. Where time and resources are so valuable and expensive, the value of collaborating with trusted partners cannot be overstated. The banks that recognize this can take advantage of the wealth of experience that the right outside vendors can bring to the transformation process.

Figure 12: Capabilities Built In-House vs. Outsourced



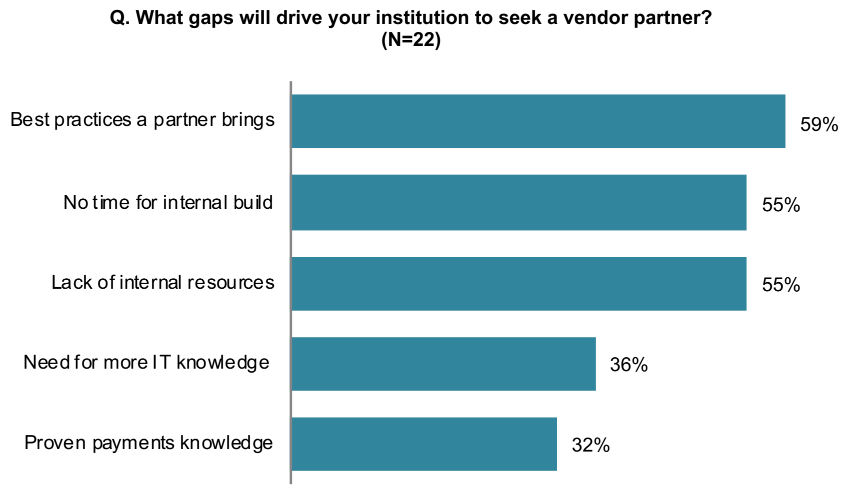
Source: Aite Group survey of 22 top global banks

DRIVERS TO SEEKING A PARTNER

When selecting that trusted fintech partner, there are several motivating factors. Research has uncovered that the banks that have placed the highest priority on their digital payments transformation initiatives are primarily interested in the strategic benefits of a vendor partner. Banks that view transformation efforts as “somewhat important” or “not important” report seeking a partner to make up for lack of time and internal resources. While there is no question that a fintech partner can augment the resources and remove some burden from the bank, best practices and strategic expertise should be much more compelling drivers. Fifty-five percent of banks cite these best practices as the primary driver in seeking a vendor partner (Figure 13).

These banks have the potential to realize a much quicker ROI on their payments transformation investments.

Figure 13: Drivers in Seeking a Vendor Partner



Source: Aite Group survey of 22 top global banks

Only 25% of top-tier banks seek a partner to satisfy the need for more IT knowledge. While this may be more of an issue for smaller banks, understanding the IT aspect of the legacy systems is not a barrier. Getting those resources to focus on a multiyear effort is likely a tougher challenge at a large institution based on the number and complexity of IT demands. Collaborating with a vendor partner to augment resources while utilizing the wealth of knowledge and expertise is an important component to a successful payments transformation journey.

SELF-ASSESSING AND BENCHMARKING

A self-assessment exercise can help banks identify where they are on the digital transformation journey. This can help banks recognize opportunities for further development and develop a more focused roadmap of priorities. The scorecard sample in Figure 14 can be used as a tool to self-assess a bank's market position and priority of next steps.

Figure 14: Payments Transformation Scorecard

Payments Transformation Scorecard

POINTS

1 Do you offer real-time account-to-account payments? Yes = 5 pts No = 0 pts _____

2 Do you offer value-added services on real-time rails?
(e.g., request to pay, confirmation of payee, bill pay) Yes = 5 pts No = 0 pts _____

3 Where do you spend most of your budget? (Choose one)
Regulatory changes = 2 pts Keeping the lights on = 1 pt New innovations = 5 pts _____

4 Is your existing platform capable of supporting upgrades with
zero downtime (e.g., rolling upgrades)? Yes = 5 pts No = 0 pts _____

5 How long does it take you to run a full regression test cycle?
Weeks = 0 pts Days = 3 pts Hours = 5 pts _____

6 What does "cloud" mean to you?
Headaches = 0 pts New opportunities = 2pts Proven value = 5 pts _____

7 Which of the following are profitable for your organization? 2 pts each
ACH payments Wire payments RTP/instant payments _____

8 What is the average time required to offer new payments
products and services~~?~~
Years = 0 pts Months = 3 pts Weeks = 5 pts _____

9 Do you have more than one payments platform in your organization?
Yes (more than 2) = 0 pts Yes (1 for batch and 1 for real time) = 3 No = 5 pts _____

10 Are you able to deliver new substantive functionality without dependency on a vendor?
Yes = 5 pts No = 0 pts _____

11 Can your platform support the following? (Select all that apply) 2 pts each
Containerized deployment (e.g., as Docker images) Dynamic elastic scalability
Cloud-agnostic infrastructure ISO 20022 messaging
Zero downtime (24/7/365 availability) Microservices architecture _____

12 What APIs do you expose? (Select all that apply)

Limited to internal use cases	1 pt
Regulatory (e.g., open banking)	1 pt
Closed partnership (available to limited participants on a paid/bilateral basis)	2 pts
Open environment (proprietary APIs offering services to and consuming services from third parties)	3 pts

_____

TOTAL POINTS

Source: Aite Group

ASSESSING THE RESULTS

Using the scorecard scoring model, banks can identify where they are in relation to the industry and their competitors.

MORE THAN 50 POINTS

You are ahead of the curve. You understand the value of investing in foundations that allow your organization to be nimble and deliver value-added services to meet client needs quickly and efficiently, but the payments transformation journey does not have a finite end. It is critical that you continuously evolve your strategy to deliver solutions that are relevant and flexible enough to support changing demands. Digital strategies to help maintain a market-leading position include the following:

- Actively drive down TCO and focus on high ROI in the domains for which it matters most to your financial institution. This shouldn't be a one-off exercise—always explore how you can get closer to the goal of reducing costs for payments processing.
- Consider the longevity of your payments platform to allow new and unimagined value-added services without disruption to your existing infrastructure.
- Plan for the tsunami of payments volume forecasted. Your payments platform needs to handle the demands of today as well as 10 times the volume tomorrow.
- As open banking opportunities mature, consider how your API strategy is leveraging best-in-class partnerships and solutions that focus on innovation and customer loyalty, using data insights to future-proof your portfolio.

BETWEEN 36 AND 49 POINTS

You are on the right path. You are a step ahead of some of your peers, but you have an opportunity to move further up the payments transformation ladder. You have good foundations in place, but there may be barriers preventing future growth and optimization. You can take the following steps to prepare and to provide a best-in-class digital payments experience for your clients:

- Identify gaps between your architecture and your target model and transform incrementally to deliver value quickly at a lower cost and a lower risk.
- Improve speed to market and flexibility, accommodating infrastructure to future-proof your digital solutions.
- Reduce TCO by replacing legacy technology with cloud-enabled solutions that leverage open source to accelerate the transformation journey and to process payments more efficiently.
- Work with partners to accelerate time to market while staying in control—for example, leverage prebuilt schemes and gateways while having the flexibility to accommodate your specific requirements.

LESS THAN 35 POINTS

It's time to take action. Your organization is significantly behind leading-industry peers when it comes to payments readiness and efficiency. Continued inaction could lead to lost revenue and limited future opportunities. Technology options that can help to quickly close the gap and make significant progress are accessible and available through vendors:

- Begin a strategy that considers outsourcing elements of your payments value chain that are not strategic.
- Identify gaps between your architecture and your target model, and transform incrementally to deliver value quickly at a lower cost and at a lower risk.
- Seek partners that provide deep industry expertise and that can provide practical guidance on achieving lasting transformation with methodology, tools, and blueprints accumulated from proven successes.

HOW TO DEFINE SUCCESS

Just as there is no singular definition of payments transformation, there is no singular definition of success. One of the most frustrating aspects of digital transformation efforts for banks is that success is unknown in the short term. The journey never ends, and proving out the scalability, resiliency, flexibility, and longevity of transformation efforts can take decades. Even with this,it is critical to define a high-level view of success so that efforts can be focused on bringing the desired results. For most banks, the core of success is the ability to serve the future needs of their clients. Some specific ways in which banks are defining success are as follows:

- Enabling straight-through processing of financial transactions and remittance information in digitized formats
- Meeting clients' future payment and data demands
- Gaining measurable market share to create economies of scale for new payment offerings
- Increasing profitability of payments business through coherent cost and revenue models
- Creating a seamless customer experience
- Executing new offerings in a nimble and agile method
- Creating infrastructure that will remain relevant in the coming decades

Banks that can create a payments infrastructure that accomplishes these goals while demonstrating their commitment to clients will create sustained loyalty as they continue to evolve.

HOW TO DETERMINE NEXT STEPS

While it will take years to realize the true benefits of transformation efforts, the process has to be broken up into smaller phases to ensure continued forward momentum. As seen in the self-assessment exercise, the transformation journey is complex, but it can be managed by looking at the existing state to determine the next steps. Even within the top-tier banks, next steps can vary greatly. For banks that have not implemented real-time payments, this is the top priority. For banks outside the U.S. that are further along with domestic real-time payments adoption but have not implemented cross-border real-time payments, this is a prioritized next step. As banks progress along the transformation path, also important to consider are uncoupling the payments value chain and leveraging open source technology to reduce TCO and to lay the foundations for the future.

Banks that have already implemented real-time payment services or that are in process of implementing them are focused on more strategic efforts. These banks report their next steps to involve an expansion of offerings that include overlay services and partnerships with fintech companies to provide more value to their customers in a more agile manner. Utilizing open banking is a way for banks to differentiate themselves and increase their payments and data capabilities. Also, how alternative payments options fit into transformation initiatives is being considered in next steps. Clients want to gain the efficiencies from better payment options while reducing the steps to execute and reconcile these payments.

Some banks that are considered leaders are focusing their next steps on industry education to help increase real-time payments adoption in their countries. For some of the more immature markets, this real-time adoption is critical to ROI on investments already made in the payments infrastructure. These banks are also heavily investing in voice-of-the-client efforts to ensure that what is being developed will be understood and will solve the business problems of the banks' clients. There is confusion in the market, both internally and externally, on which solutions are the right ones to invest in—terms such as real time, cryptocurrency, and blockchain are not always clear, and noise around the rails and ecosystem can be overwhelming.

Many of these next steps need to be considered in tandem, making it easy to lose focus. Using a self-assessment tool, staying educated on industry trends, and utilizing the knowledge and expertise of fintech partners can help prioritize these efforts.

CONCLUSION

- The primary driver of payments transformation efforts is 24/7/365 real-time payments and data demands. Legacy batch processes are not sustainable in the long term and cannot support modern infrastructure demands.
- One of the primary goals of payments transformation efforts is speed: Speed to market, speed of payment, speed of adoption, and speed of data are critical.
- The revenue model of payments is starting to shift from transaction services to data-driven value-added services. Some banks are already beginning the shift, while others understand that this shift will be inevitable, but they are not sure how or when they will transition.
- Not moving forward with payments transformation initiatives is risky. As top-tier banks around the globe are executing their strategies, banks that are not actively doing the same risk valuable clients, prospects, and transaction volume.
- As payments profitability is on the decline, banks are being forced to invest in new technologies that may not generate cost savings or new revenue in the short term but that are important for future-proofing payments and reducing TCO.
- There is a link between the financial institution’s priority of payments transformation initiatives and payments profitability. These banks can connect their organizational commitment and developments to bring direct value to their clients and to charge a premium for this connection.
- Almost all top-tier banks already recognize the value of collaborating with vendor partners. These partnerships can not only relieve some demands on internal resources but can also bring expertise and perspective to help banks execute more effectively on their transformation efforts.

ABOUT ICON SOLUTIONS

Icon Solutions is a fintech partner focused on the topic of payments transformation, providing world class payment and enterprise solutions for the global financial sector. Clients include leading international institutions such as BNP Paribas, Citi, HSBC, Lloyds Banking Group, and Nationwide. Whether it be assessing payments systems, producing transformation roadmaps, or simply providing subject-matter expertise, Icon delivers pragmatic solutions that allow its clients to be leaner, innovative, and responsive to the demands of the future. Visit us here or connect with us on Twitter and LinkedIn.

CONTACT INFORMATION

Simon Wilson
Director, Global Payment Solutions
simon.wilson@iconsolutions.com
M +44 (0)7468 429440 | T +44 (0)20 7147 9955

Toine van Beusekom
Director, Centre of Excellence
toine.van.beusekom@iconsolutions.com
M +31639675786 | T +44 (0)20 7147 9955

For all press and conference inquiries, please contact:

Icon Solutions PR
+44 (0)20 7147 9955

marketing@iconsolutions.com

For all other inquiries, please contact:

marketing@iconsolutions.com

ABOUT AITE GROUP

Aite Group is a global research and advisory firm delivering comprehensive, actionable advice on business, technology, and regulatory issues and their impact on the financial services industry. With expertise in banking, payments, insurance, wealth management, and the capital markets, we guide financial institutions, technology providers, and consulting firms worldwide. We partner with our clients, revealing their blind spots and delivering insights to make their businesses smarter and stronger. Visit us on the web and connect with us on Twitter and LinkedIn.

AUTHOR INFORMATION

Erika Baumann
+1.617.398.5042
ebaumann@aitegroup.com

CONTACT

For more information on research and consulting services, please contact:

Aite Group Sales
+1.617.338.6050
sales@aitegroup.com

For all press and conference inquiries, please contact:

Aite Group PR
+1.617.398.5048
pr@aitegroup.com

For all other inquiries, please contact:

info@aitegroup.com