**Fiserv Annual Payments Research**
**March 2022**

fiserv.

# PAYMENTS TRANSFORMATION: EMERGING STRONGER

Finextra

# 01 Foreword

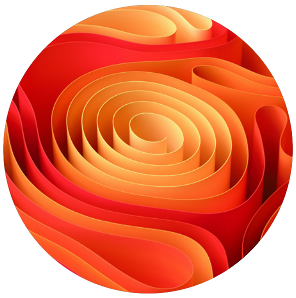
**Dudley White**
**Head of Financial & Risk Management Solutions, Fiserv**

As we emerge from the pandemic, which forced us to focus on day-to-day viability, producing our annual trends survey gives an interesting insight to how macro trends and themes evolve over the years while providing a thrilling view into what’s happening now.

The focus has shifted from large regulatory and industry-driven changes to customer-centric digital ecosystems and how to achieve more with less risk and resources. Just a few years ago, the financial sector was focused on instant payments and the introduction of extensive data through implementation of ISO 20022.

The conversation then progressed to how to monetize investment in instant and extensive data, how it adds value to the customer interaction, and how to better serve customers with a customer-centric rather than product-centric approach. Fast forward to today and the dialog is focused on how to optimize that investment, how to function in an environment with high demands on limited resources and reduce the risks, ensuring that the payments industry emerges stronger.

Our survey, Payments Transformation: Emerging Stronger, discusses findings on how financial institutions are continuing to grow and tackle emerging and disruptive competition while rationalizing investments. There is a change in emphasis towards reduction - reduction in costs through consolidation; reduction in risk through a focus on financial crime; reduction in a one-size-fits-all approach; reduction in resources to address the increasing demands of customers, regulators and the payments industry.



## Adapt and Grow

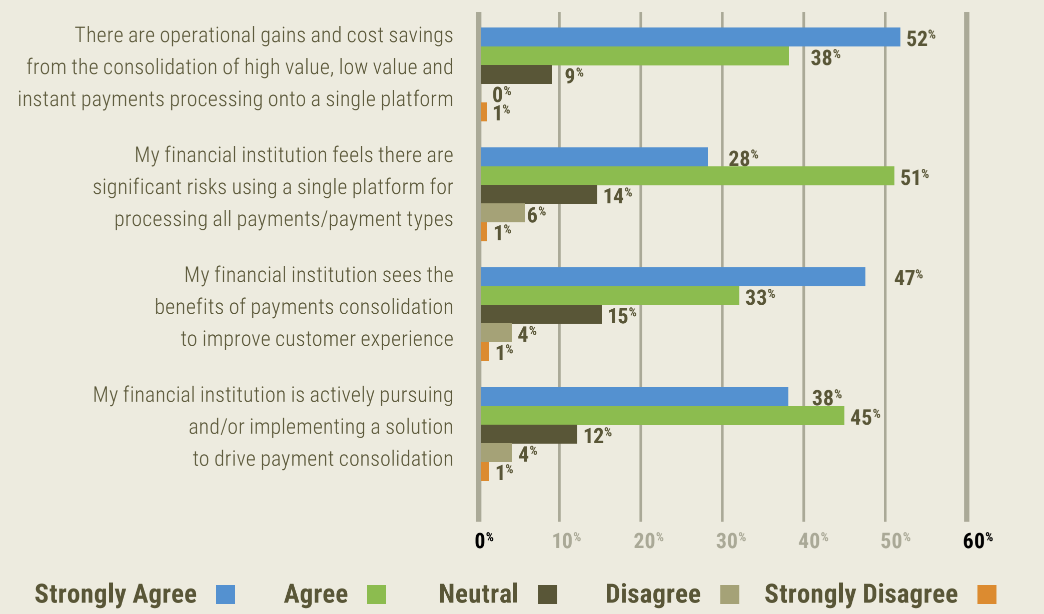
The survey demonstrates there is a clear understanding of the benefits of consolidation of payment types, including operational and customer experience improvements. Progress to this goal highlights the trend towards outsourcing standardised processes such as payment processing to a capable and trusted partner, through the evolution to payments as a service, allowing the financial institution to improve its overall operational efficiency and customer propositions.

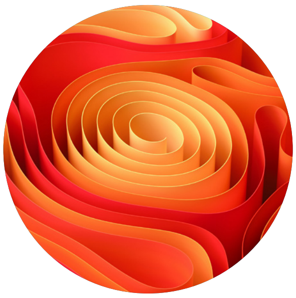
It's heartening to see respondents recognise payments as an important element of their overall value proposition. Further, there is a clear transition away from a 'me too' undertaking to being a brand differentiator. Finally, to secure growth and outsmart known and unknown competition, financial institutions are willing to adapt new partnership strategies and operating models.

# 02
# Payment Consolidation

Payment consolidation involves a financial institution migrating its non-card payment processing onto a single, logical platform or infrastructure independent of payment type – RTGS/Wire, instant/real-time, ACH/batch, cross border etc.

## To what extent do you agree with the following statements about payment consolidation:



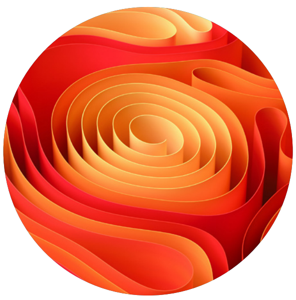
Consistent with what we are seeing and hearing globally, the survey reaffirms that financial institutions have a clear understanding of the benefits available from consolidation, with 90% of respondents agreeing that it would deliver operational gains and cost savings, and 80% agreeing it would have a positive impact on their customers' experience.

However, and perhaps somewhat surprisingly, respondents appear less concerned or aware of the potential risks associated with consolidation; 21% are either ambivalent or disagree that this approach presents risk with a financial institution's entire payments processing capability being provided via the operation of a single logical platform.

Given the nature and criticality of payments, we expected financial institutions to hold a strong and supportive view of the benefits of consolidation while having a more balanced understanding and approach to the risks involved with consolidation. However, this could be due to the increase in transition to managed services and payments as a service providers where the underlying platform is less important than the consolidated payment capabilities.

Over four-fifths (82%) of respondents confirmed they were actively implementing or pursuing payments consolidation projects. The vision of a unified platform for all payment types and channels is becoming a reality for financial institutions.

Progressive renovation, the improvement of payment system functionality or addition of new payment rails, may also explain the view of risk, mitigating it and allowing the benefits of consolidation to be obtained, albeit, over a longer timescale.



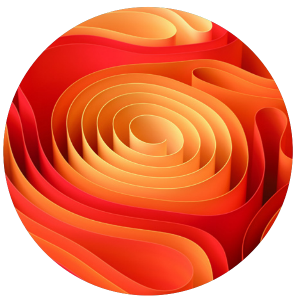
# 03 Payment Transformation Programmes

Payment transformation projects cut across business functions and can be resource intensive. The strategic priorities of these programmes change by financial institution size, location, business model and customer segment. As expected, when asked what the top driver for payments transformation was, the responses were evenly distributed. However, when asked to rank priorities, 48% of respondents said improving the customer experience was a key objective of the programme, as businesses now expect the same convenient, fast, frictionless digital experiences as they use in their personal lives.

Delivering enhanced customer experiences has become a critical success factor for financial institutions, with the incorporation of key experience metrics into their internal processes, often an underlying driver of the transformation programme. There is also anecdotal evidence that senior leaders at these institutions are incentivised based on their customer retention scores.

Staying competitive and being at parity with peers came second, with 44% of respondents investing in new capabilities and payments transformation programmes to ensure they stay relevant to their customers and provide competitive services.

Unlike previous surveys, respondents were less focused on technology refresh (40%) and enhanced operational efficiency (34%) of their transformation programmes. Compliance was respondents' second-least priority, with 64% of responses being either ambivalent or not supporting its importance when compared to other objectives. This is perhaps surprising, given the speed of change and that regulatory compliance has so dominated financial institutions' strategic planning for many years. Is it that technology updates, while providing new functionality and product innovation, manage compliance obligations and weed away any inefficiencies?

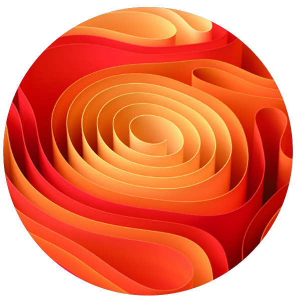


It does beg a question – have financial institutions finally accepted that compliance mandates and technology refresh are part of the cost of running their businesses?

**When planning or undertaking a payments transformation programme, please rank the following in terms of their importance to your financial institution:**

**Ranked in order of priority, according to surveyed**

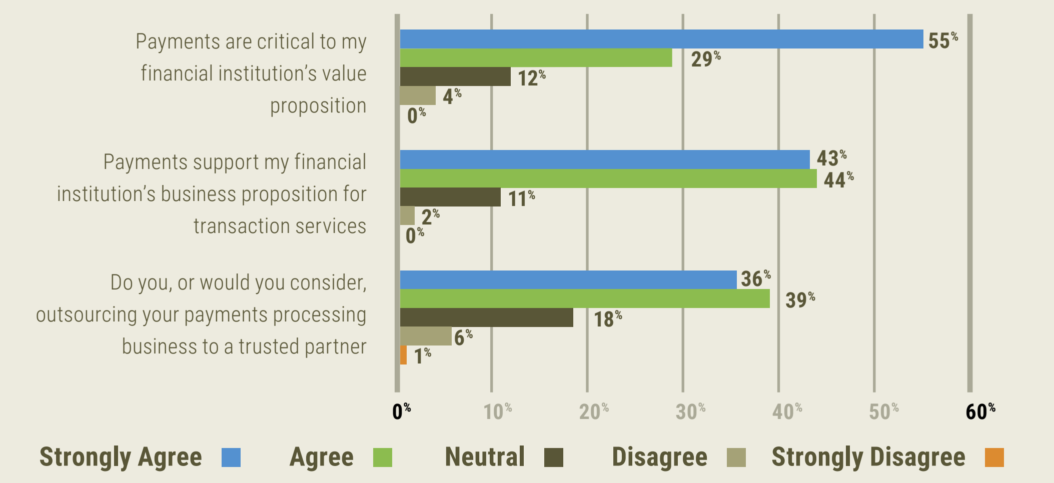
- #1 Improving customer experience/satisfaction
- #2 Market competitiveness
- #3 Technology refresh
- #4 Meeting compliance requirements
- #5 Lowering total cost of operations



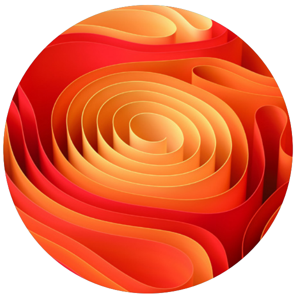
# 04
# Payment Value Proposition

While strategies vary by organisation, when questioned about the relative importance and priority of payments within a financial institution's overall value proposition, a strong 84% of respondents said that payments are a critical element of their institution's value proposition. This suggests that far from being a 'me too,' purely transactional product line, payments are an important brand differentiator and link between a financial institution and its clients.

## To what extent do you agree with the following statements about payment value propositions:




In addition, there are benefits from liquidity and credit balances, along with the upsell of data-driven service opportunities that payments enable. However it should also be noted that 16% of respondents were ambivalent or didn't see payments as a key component of  their value proposition, but as a way to drive other sources of revenue.

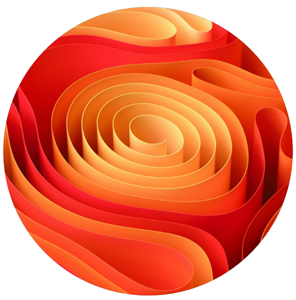


When asked about the importance of payments to their institution's transaction services division, the result was counter-intuitive with only 43% of respondents saying that payments were critical to their transaction services business, whereas 55% said payments were important to the overall value proposition of their banks. One can summarise that payments are more important to an institution's value proposition and market perception rather than to the division under whose auspices it falls.

On the likelihood of institutions outsourcing their payments processing to a third party, 76% of respondents were in favour of outsourcing or partnering with a trusted partner, with 17% undecided on the issue.

Historically, reduction in total cost of operations was a key driver for outsourcing of payments processing. However, as demonstrated by the responses to the second question, financial institutions today consider outsourcing as an essential strategy. They focus their resources and expertise on customer-centric and customer-facing programs while relegating specialist activities, such as payments processing, to trusted technology partners. This allows financial institutions to become more agile, both tactically and strategically.

This combination of approaches means financial institutions provide and control the customer experience to account holders, while a trusted technology partner manages behind-the-scenes complexities. Only a small percentage preferred to keep payments processing in house, presumably for full and direct control of the end-to-end customer experience.



05

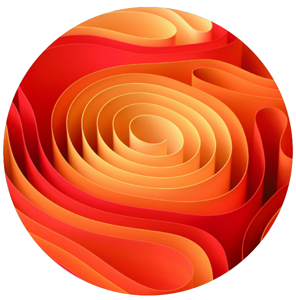
# Financial Fraud and Crime

Open banking and the rapid transition to instant payments have opened up new opportunities for fraudsters and instigators of financial crime. There is a market perception that not enough is being done to prevent financial crime, and therefore it was unexpected when 83% of respondents said their financial institution was able to detect financial crime for payments in real time.

The fight against fraud and financial crime continues to grow in both scale and importance to financial institutions and their regulators. For example, the 2021 Half Year Fraud Report issued by UK Finance stated that through financial crime, criminals stole £754m in the first six months of 2021 (a 30% increase over the same period in 2020) even as "the advanced security systems used by banks" prevented a further £736m from being stolen. Similar figures are also reflected in other countries.

While financial institutions are having success in reducing the incidence of financial crime, the challenges involved in the identification, assessment and prevention of fraud in payments cannot be underestimated, particularly as instant payments become the de facto norm. Against this background, it is unusual that only 3% of respondents admitted to their financial institution having issues in this area.

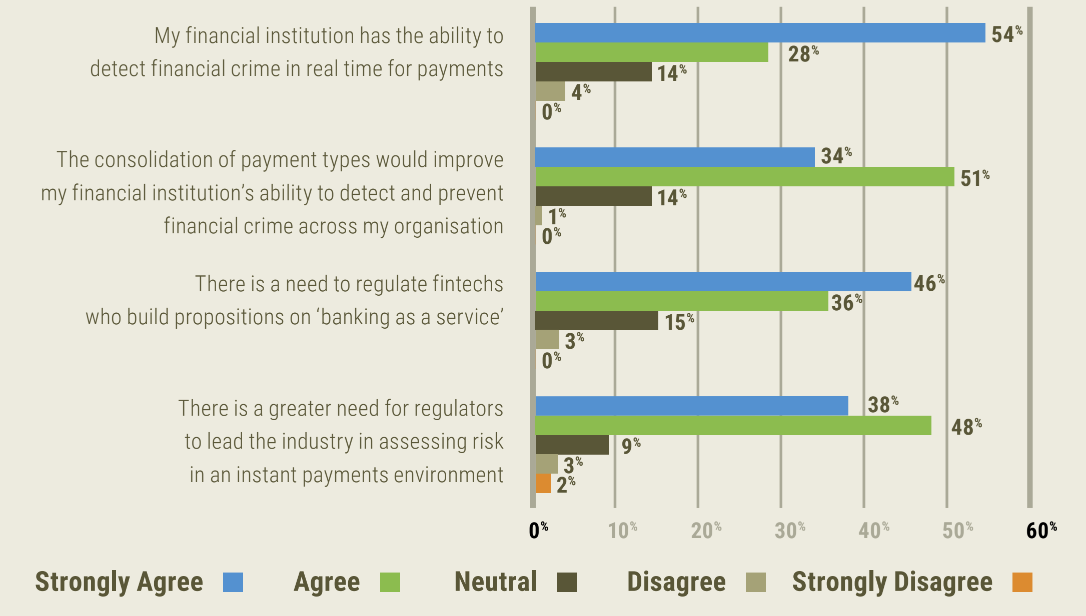
By consolidating payment types, financial institutions are clearly able to stay ahead of fraud and financial crime, as affirmed by 85% of respondents. Payment consolidation enables financial institutions to analyse all payments and send enriched, normalised data from one centralised platform, real time. This provides financial institutions full visibility of payment flows and alerts when multiple attacks take place. Additionally, limits and thresholds can be set across multiple payment rails and customer/product profiles to address total risks, rather than managing risk mitigation across individual customer-facing platforms. Clearly, the fewer payment systems and formats a financial institution's financial crime system has to deal with, the better chance they have of detection.

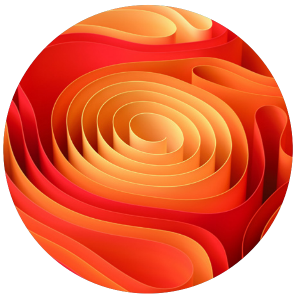


With financial institutions increasingly engaging third-party providers and fintechs to support their payment services, there is a case to be made for some form of industry or regulatory oversight of these partners. Such regulatory scrutiny would also provide them with additional comfort, beyond that provided by their internal due diligence checks and reference bank visits, for example, when relying on technology provided by third parties.

Unsurprisingly, 82% of respondents said their suppliers should be subject to some level of regulatory scrutiny. In addition, 86% of respondents supported the need for regulators to take a more proactive approach, a level predictable when considering the always-on, instant payment environment and the impact a failure would have on individual users and potentially the entire payment ecosystem.

## To what extent do you agree with the following statements about fraud and financial crime:



06

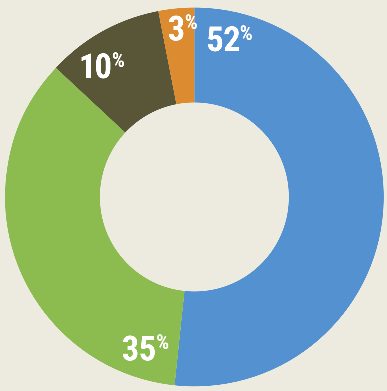
# Future Operating Model

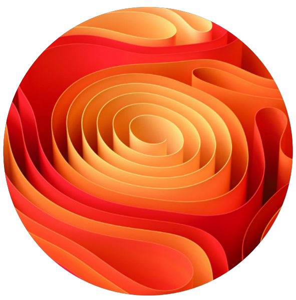
Financial institutions have been facing a steady flow of regulatory and compliance mandates, greater competition from fintechs and neotechs, increasing internal margin pressures, and customers' digital-first expectations. With existing and new initiatives such as real-time payments, QR codes, overlay services, and buy now, pay later programs in the supply chain ecosystem, financial institutions know they have to manage many moving parts. Notwithstanding the market and operational pressures, financial institutions play a pivotal role in the financial ecosystems, affirmed by 51% of respondents who said they would continue to operate as a full-service, one-stop bank for their customers.

Further, with growing emphasis on customer experience, 36% said they would look to provide banking as a service, taking financial products to customers at the point they need them by integrating with powerful APIs. What is also clear is that financial institution leaders would rather focus on what they do best – financial services – and leave services such as payments orchestration to specialists.

## Which of the following options best describes the ideal future operating model for your financial institution?

- 52% **Full-service banking** (accepts demand deposits, provides loans and payment services)
- 35% **Providing banking as a service** (end-to-end integrated digital platform)
- 10% **Orchestration of an ecosystem** (interconnected partnership of financial institutions and fintechs)
- 3% **Provider of market leading services** (to other financial institutions and fintechs)



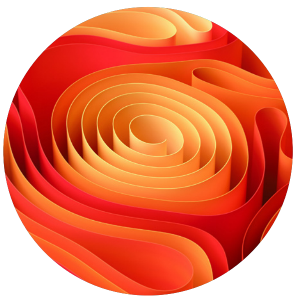
# 07
# Data Analytics

The move to real-time payments, the adoption of ISO 20022 as the global standard and payments consolidation are yielding unprecedented access to rich data and information. Where big techs have succeeded, many financial institutions encounter barriers when harnessing this data. Half of respondents (50%) said security concerns were inhibiting them from using data analytics widely.

Financial institutions have not yet worked out a pan-organisation approach to data classification, data protection, cyber and privacy laws, and compliance mandates. This seems counterproductive as enterprise-level data analytics tools provide real-time monitoring and can identify patterns or spikes that might be indicative of fraud. This approach provides financial institutions with a much higher caliber of security than manual monitoring.

Lack of normalisation of data is a key inhibitor, with a quarter of respondents saying the data lived in multiple legacy systems with different technologies, which makes it difficult to pull and normalise data across systems.

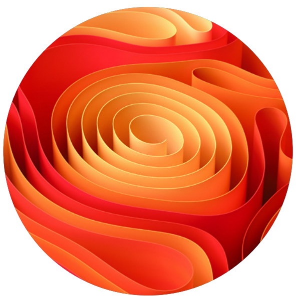
Notably, financial institutions have not as yet considered the immense potential of predictive, real-time analytics or the monetisable benefits of data, resources and skill sets. There is a clear need for better understanding and appreciation of the value proposition of payments data.



### What is the main impediment to the greater use of data analytics in your financial institution?

**Ranked in order of priority, according to surveyed**

- #1 Security concerns sharing data and meeting compliance oversight
- #2 Lack of normalisation of data held in multiple formats and locations
- #3 Lack of predictive, customer or real-time analytics (AI, pattern recognition, machine learning)
- #4 Lack of understanding why data is valuable and how is best used to create value
- #5 Lack of data analytics talent/experience within the organisation

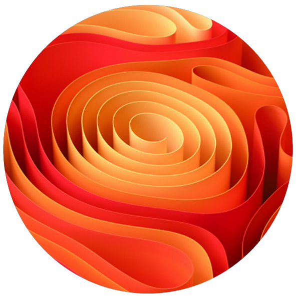


# 08
# Cash and Liquidity Management

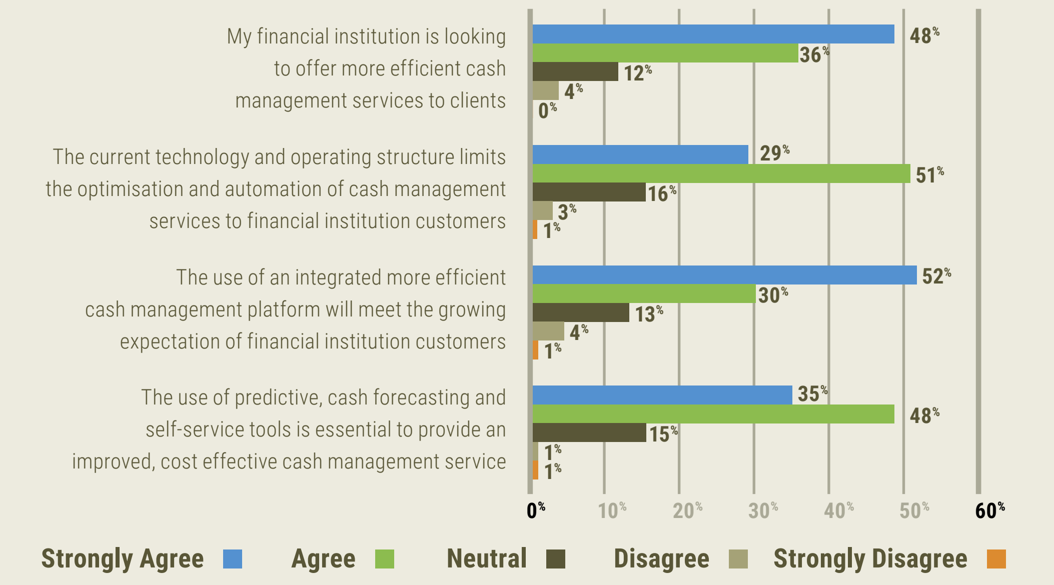
Financial institutions and corporate treasurers know a real-time approach to cash and liquidity management improves intraday liquidity. However, most organisations lack the robust systems and tools to achieve this level of liquidity management. With good integrated cash management platforms and systems in place, financial institutions can track available liquidity and cash-flow needs, identify how to meet those needs and determine where to source necessary funds, as affirmed by 83% of respondents in this survey.

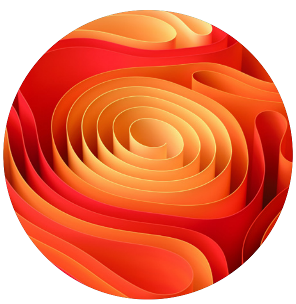
Some corporate businesses and treasurers have struggled to get a handle on their liquid assets. When it comes to cash and liquidity management, financial institutions are more than willing to step up their services. The survey found 85% of financial institutions are keen to offer efficient cash management services to give corporate treasurers greater visibility, access and control of their bank account balances, transactions and money movements, as well as future payables and receivables information.

Emerging business uses, such as funding, liquidity buffers optimisation, intraday credit measurement and cost allocation, require sophisticated tools. These include real-time processing, cross-asset visibility, forecast accuracy, limit management and the capability to interact with payment flows. The use of predictive, cash-forecasting and self-service tools is therefore essential, as confirmed by 84% of survey respondents. They provide an improved, cost-effective cash management service that goes beyond regulators' demands for reporting liquidity positions and exposure; they enable a financial institution to use its liquidity positions effectively, optimising the use of liquidity and monetising excess liquidity without adding undue risk to the organisation.



## To what extent do you agree with the following statements about cash and liquidity management:



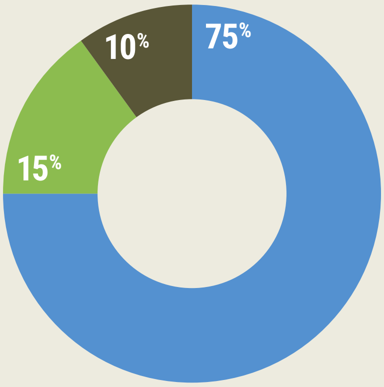



# 09 Digital Currencies

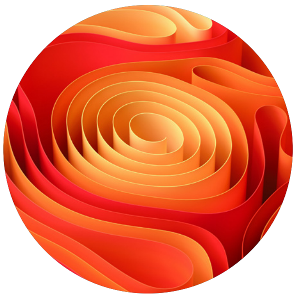
Digital currencies offer a vision of simplified financial services, financial inclusion and a frictionless economy. However, the path forward is complex with significant uncertainty. How will the currencies coexist? What are the risk and fraud nets? How will they be regulated? Even with many unknowns, there is increasing interest with 75% of respondents exploring or understanding the relationship between digital currencies and financial institutions. Taking the lead are central banks, which are toying with the idea of introducing central bank digital currencies (CBDCs) to mitigate private sector innovation.

## Are you in the planning or implementation stage to introduce digital currencies?

- **75%** Currently researching my options and impact to my institution
- **15%** Piloting this year
- **10%** Low interest, not pursuing currently



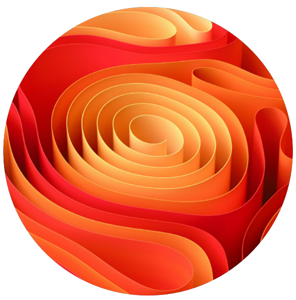

While still nascent, it will be interesting to watch the growth trajectory of digital currencies and their applications – domestic payments, cross-border payments, reachability – with 15% of survey respondents piloting at least one form of digital currency.



This trend will continue throughout the year, but the pace and adoption will be heavily dependent on an extensive consultation period and a need for digital currencies to be operationally and technologically robust.

Other opinion focuses on the use and benefit of digital currencies and the problems it solves and advantages it offers. It is not hard to see why digital currencies, which have the intrinsic value of a fiat currency, are being treated as a significant development by so many countries. The answers to the many questions raised by their adoption will become clearer over the long term. It is certainly not too early to consider the impact but there is no expectation of early adoption.





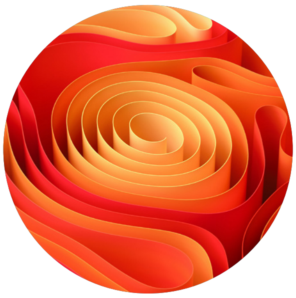
# 10 Payment Project Priorities for 2022

To complete our survey, we asked financial institutions for their top payments-related projects for 2022.

**Please select all of the following 2022 payments projects that are priorities for your financial institutions:**

**Ranked in order of priority, according to those surveyed:**

- #1 High-value modernization
- #2 Instant or real-time payments
- #3 Cross-border international payments
- #4 Real-time fraud & financial crime
- #5 Digital client experiences



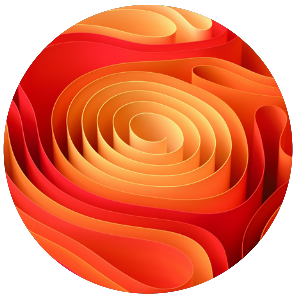
Predictably, modernisation of their high-value payments infrastructures, and the rollout of instant and real-time payments are the main priority for respondents. Unexpectedly, cross-border payment projects ranked higher than fraud and financial crime and digital customer experience enhancements. Our assumption is the increased international mobility of people, goods, services and money has contributed to the relative importance of cross-border initiatives.

High-value payment systems are mission critical for financial institutions and in 2022 they will take centre stage with the global move to ISO 20022. Nonetheless, only 62% of respondents agreed that ISO 20022 projects should go beyond compliance to provide extensive data-rich information that can be monetised as value-added services. While instant payments and 24/7 money movement are quickly becoming the new normal, financial institutions are only focused on the compliance deadline they need to meet in 2022.

There is a contradiction with digital customer-focused projects having the lowest priority for 2022 when respondents rated customer improvement programs at the top of their payments transformation programmes list.  This can be explained given the short-term focus on 2022 priorities, and most of these would have not started in 2022 compared to longer-term payment transformation programmes.

Across all markets, attention is being given to the structures and formats necessary to support cross-border transactions, and how these interact with domestic payment schemes to provide a fast, cost-effective and friction-free experience for the users. Half (51%) of the respondents rated cross-border payments as a focus area for 2022 and it will be interesting to see how initiatives such as CBDCs, stablecoin, interoperability of market infrastructures, and directory and addressing services will impact traditional players, including SWIFT.

The low priority given to fraud and financial crime initiatives in 2022 is again worth highlighting, especially as the modernisation of the high-value schemes will provide extensive structured data to help identify financial crime. Instant payment schemes driving decision making towards 24/7/365 millisecond responses and cross-border payments introduce additional risk.



# 11
# Survey Methodology

Consistent with previous years, the survey was undertaken online toward the end of 2021, garnering responses from a range of senior staff, in a variety of relevant disciplines, at banks and financial institutions globally.

An analysis of the over 160 survey responses received produces the following breakdown:

**By seniority**

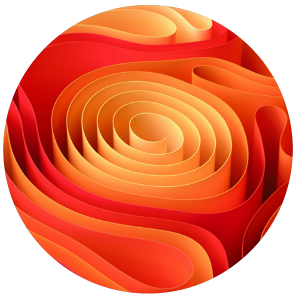
| | |
|---|---|
| 37% | COO, CIO, CTO, CFO, EVP, SVP |
| 33% | Senior Director, Director, VP |
| 49% | Senior Manager |

**By discipline**

| | |
|---|---|
| 34% | Information technology |
| 5% | Cash Management |
| 15% | Business Operations |
| 7% | Product Development and Management |
| 13% | Risk Management |
| 8% | International Transaction Services |
| 8% | Other Allied Disciplines |

**By region**

| | |
|---|---|
| 47% | Europe, U.K. and Nordics |
| 30% | North America (U.S. and Canada) |
| 13% | Asia Pacific |
| 10% | Middle East and Africa |



# 12 About

## Finextra

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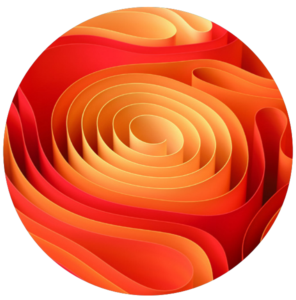

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