White Paper

The Benefits of Payments as a Service for Your Financial Institution

Engaging with an Experienced Partner Delivers Best-of-breed Services for Your Customers

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Financial institutions are under pressure to keep pace with evolving digital and instant payment innovations, while continuing to support traditional payment rails. Sustaining seamless consumer and business experiences means managing multiple IT infrastructures, applications, access points, operational processes, and compliance programs to maintain the security and reliability of available payment options in a never-down environment. The result is often a cobbled-together payments ecosystem that's difficult to manage, maintain and scale.

Payments as a service (PaaS) offers financial institutions an alternative, enabling them to provide best-of-breed services to their customers. By migrating their payments processing business to a PaaS provider, banks and credit unions gain access to advanced functionality, reliable operational support, broad capacities and ongoing regulatory conformity without added capital expenditures or resources. For small and medium-sized financial institutions, PaaS helps level the playing field with larger competitors and emerging fintechs.

Payment transactions are the recurrent touchpoints between a financial institution and its customers and, therefore, an important tool to stay connected, competitive and relevant. However, balancing payment services with profitability is becoming a difficult problem for financial institutions to solve. In a world of falling interest rates and net interest income from customer deposits, financial institutions have less available funding to support payments infrastructure and may be forced to rethink their payments provisions and capabilities.

Costs of Legacy Infrastructure

To retain customers and compete, financial institutions are faced with offering more in the payments space while spending less. The cost of providing increased capabilities is high and rapidly increasing.

Adapting old, siloed infrastructures for a digital-first world can be difficult for financial institutions. Aging mainframe systems are challenging to maintain and scale, let alone adjust and evolve for modern security and compliance measures.

The technology and operational effort and money required to maintain legacy platforms and systems may prevent financial institutions from investing in value-added services and payments innovations.

As a work-around, some institutions create or procure single-purpose payments systems to accommodate new customer access points or provide support for a new payment rail to accelerate the rollout of new payment products. However, that leads to a contradiction between customers' expectations for a frictionless, focused service across all touchpoints and the product-only focus the work-around provides.

Disadvantages of Moving to the Cloud

Some financial leaders view the cloud as a surefire way to reduce costs and increase scalability. The cloud can create a faster time to market and reduce operational staffing expenses, offering a scalable and reliable alternative to on-premise solutions.

But a silo is a silo, regardless of its location. Moving individual payments systems to the cloud offers incremental savings, but doesn't reduce complexity, the costs of managing multiple services and customers' expectations for a frictionless, focused service.

Cloud-based payments solutions still need to be hosted, managed, repaired, audited and protected. Infrastructure costs can move off-site, but challenges remain.

Benefits of a PaaS Partner

With access to multiple market infrastructures and payment schemes, financial institutions can benefit in many ways by outsourcing their entire payments processing business to PaaS solution providers, including:

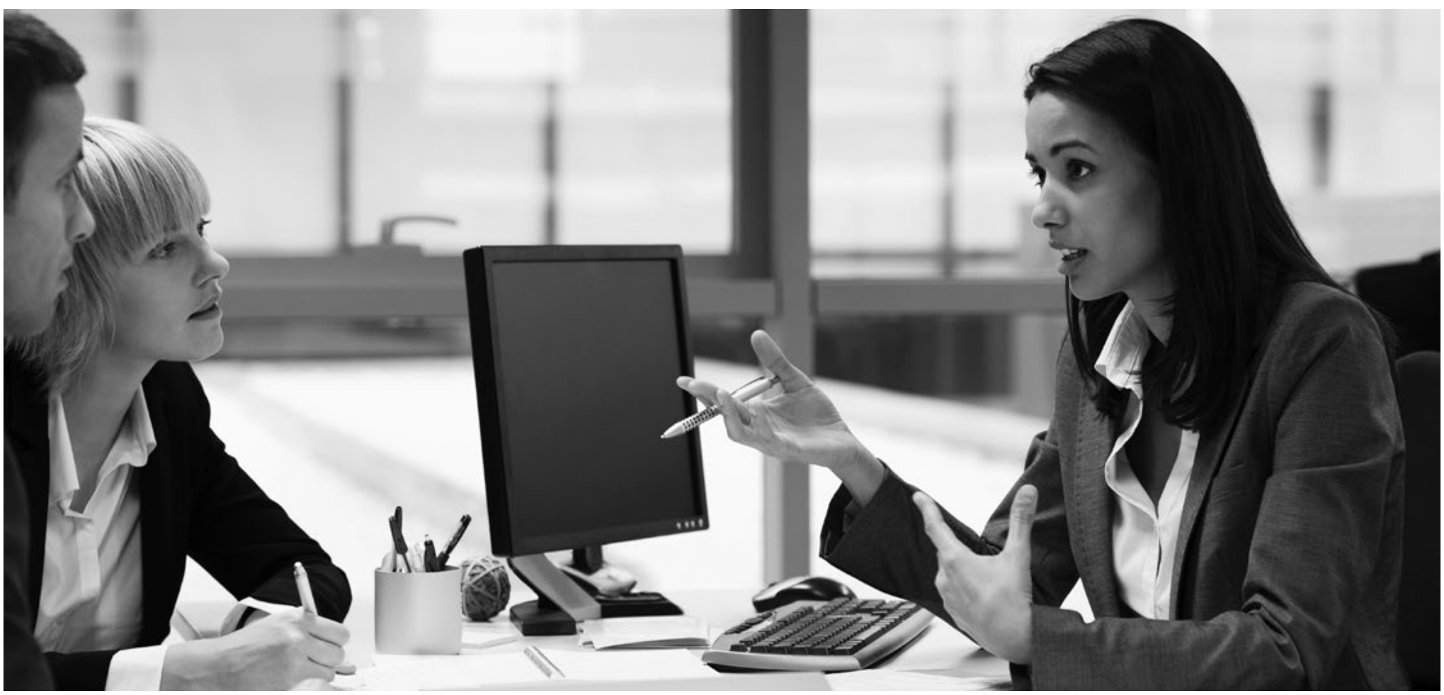
- Best-of-breed payment experiences
- Access to new payment infrastructures and schemes
- Support for increasing volumes and compliance requirements
- Access to dashboards and analytics
- Time to focus on digital interactions and customer experiences

When financial institutions transition to PaaS, they hand off burdensome and costly tasks to the provider, including security, connectivity, compliance and resilience. That enables organizations to lower processing costs, maximize margins and reallocate specialist resources to areas that are core to an institution’s value proposition.

Not All or Nothing

Completely outsourcing an organization’s payments business to a trusted PaaS partner is financially and operationally attractive. However, it’s not all or nothing.

PaaS solution providers offer a range of managed service solutions, from simple ASP-based services to complete software-as-a-service options, depending on the level of customization and control an institution needs. Alongside these services, providers offer support services from basic technical support, such as infrastructure and database monitoring, to technical operations support, to ensure essential gateways and application services are always available.



Considerations for Your Financial Institution

Although PaaS offers several benefits, it's not a perfect fit for every financial institution. When evaluating PaaS, consider the following questions.

1  **What are the organization's strategic imperatives for payments?**

2  **What is the true cost of current payments infrastructures?**

3  **How would the organization add a new payment innovation today?**

1. **What are the organization's strategic imperatives for payments?**
   Decide which payments features are strategically important to the institution in the future. Evaluate how the institution is performing on those measures and what's getting in the way. Institutions that lack the talent or financial resources to develop best-of-breed payment services can leverage PaaS to expand their capabilities and build tactical and strategic agility.

2. **What is the true cost of current payments infrastructures?**
   When payments processing is complex or siloed, it's difficult to calculate the total cost of payment operations. Costs, including capital expenditures, licensing and network fees, compliance and audit costs, are just a start. Organizations should also consider costs for continual systems integration and the human resources, including training, financial and legal support, needed to develop and manage payments solutions. Business continuity and disaster recovery costs, upgrades and improvements and opportunity costs related to customer response times should also be considered.

3. **How would the organization add a new payment innovation today?**
   Responding to market demands across existing infrastructures and solutions is increasingly important. Financial institutions that only focus on new payment capabilities and standards may miss the opportunities presented by new, innovative business overlay services, such as Request to Pay or open APIs, that cut across multiple payment rails.

The Opportunities of PaaS

Legacy infrastructure and siloed systems often aren't suited for increasing volumes, emerging use cases or the resiliency and availability demanded by a 24/7 payments world. Successful financial institutions know the value of remaining relevant, protecting their businesses and staying ahead of changing customer demands. PaaS can provide a solution tailored to the needs of each financial institution.

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