Preparing for the Future of Payments

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The fifth annual Global Payments Survey by Finextra with Fiserv offers new insights into the dynamic payments landscape.

Due to widespread adoption of technology-enabled instant payments, financial institutions are racing to keep up with higher expectations. Increasingly, payers want to move money faster, with more information and transparency.

Nonbank entities, from Facebook to Fintechs, promise to eliminate friction and provide better service than incumbents. Working within the limits of legacy infrastructure, regulations and budgets, financial institutions are challenged to create payment products and services that are instant, seamless and secure.

In the 2019 survey report, Payments Transformation: Building a Vision Which is Instant, Seamless and Secure, senior executives from financial institutions around the world shared their perspectives on challenges and opportunities that are shaping their industry. Based on their input, we see four strategic paths forward: real-time technology, self-service, automation and partnership.

Real-Time Technology

To stay relevant, financial institutions must develop business models that match the new normal in payments, which is everything on-demand, all the time.

Fintechs and new entrants pose serious threats. Their instant-pay services enable businesses and consumers to send funds to other cards and bank accounts, replacing payment products like bill pay and direct debits. Over the next three years, 66 percent of survey respondents said they expect Fintechs to threaten their payments business. Nearly 60 percent said Visa Direct and MasterCard Send would do the same.

Ninety-four percent of financial institution executives also believe real-time payment options will be necessary to win new corporate business. The same percentage feel that real-time payments is expected by new accountholders; it's a basic requirement for modern banking customers.

The rollout of real-time payments has been slower than expected, however. In our 2015 global payments survey, 96 percent of financial institutions expected to offer real-time or instant payment capabilities within four years. In this report, we learned that implementation has proven to be more challenging than expected. By 2019, only 54.5 percent of financial institutions had successfully launched real-time services (with another 10 percent expecting to within 12 months).

What's slowing things down? Unlike other industries where new products make prior innovations obsolete, financial institutions must continue to support the entire range of older payment products alongside new offerings. Checks are a prime example. Since all payment channels must continue to coexist even as their market share shrinks, instant payments add a significant infrastructure and support burden.

Security is an additional hurdle. As money and information move faster, that speed also makes payments more vulnerable to financial crime. Real-time fraud detection solutions are required to protect real-time payments. Nearly 95 percent of executives said they plan to boost their investment in real-time fraud detection over the next three years, and fraud detection was identified as a top priority for IT payments infrastructure.

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When does your bank expect to have RT payments live?	2015	2019
Already live / within 12 months	33%	60.5%
Within 2 years	33%	12%
Within 2-4 years	30%	15%
In more than 4 years	4%	12%

Source: 2019 Global Payments Survey Report, Payments Transformation: Building a Vision Which is Instant, Seamless and Secure, From Finextra with Fiserv.

Self-Service

Consumers and businesses want their financial transactions to be completed with the same speed, convenience and simplicity they experience with other tasks they perform on their handheld devices. Self-service functionality can give consumers and businesses the tools to complete transactions independently – anytime, anywhere.

Over 88 percent of executives said they plan to improve self-service capabilities for payment initiation, status inquiries and other payment-related tasks over the next three years. More than 90 percent acknowledged they could improve how they present and share transaction information.

However, transformative self-service capabilities must reflect the consumer's point of view. Old processes can't simply be repackaged as apps or chat bots.

To create mutually beneficial self-service capabilities, financial institutions are bringing consumers and businesses into the conversation and sometimes even the design process. Design discussions that cross departmental silos are beginning to produce excellent results.

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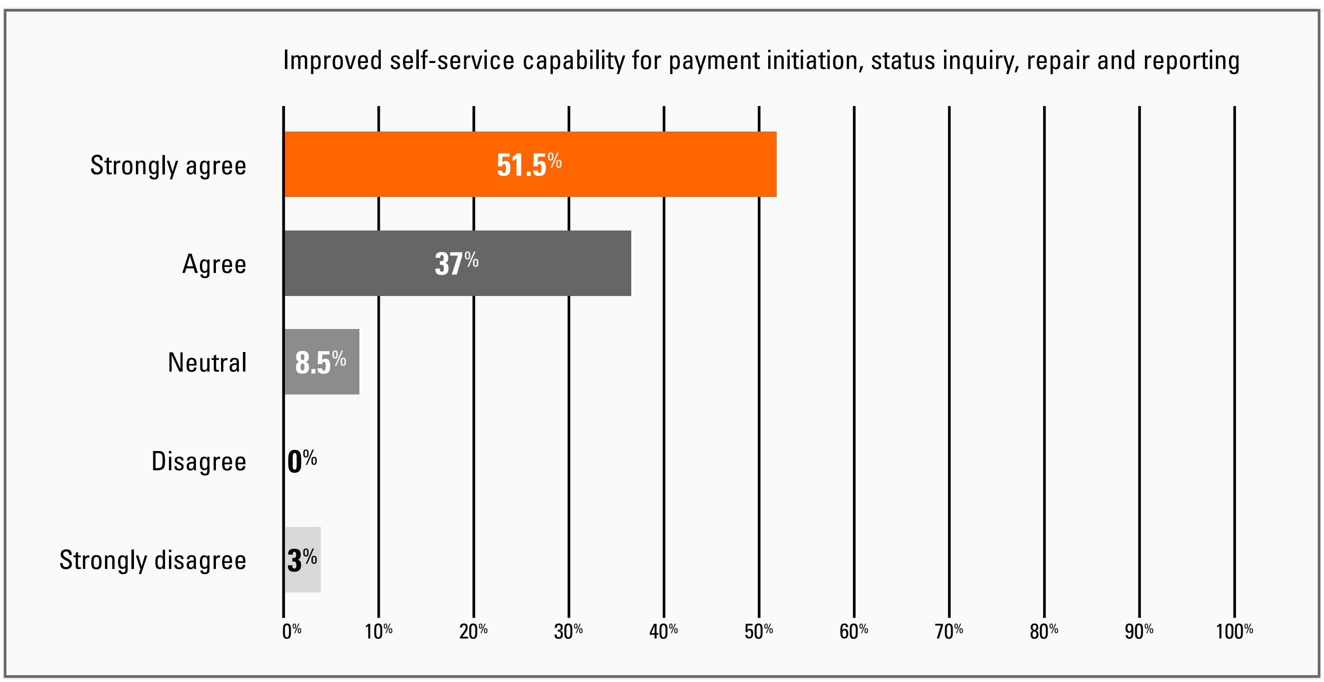
Automation

Unsurprisingly, financial institutions are under pressure to lower the cost of transactions across all payment types. Automation is a leading tactic for reining in costs; 87 percent of survey respondents said billing automation was their biggest revenue management priority.

Within the next three years what does my bank need to offer to be competitive?



Source: 2019 Global Payments Survey Report, Payments Transformation: Building a Vision Which is Instant, Seamless and Secure, From Finextra with Fiserv.

Financial institutions are leveraging automation technologies to tackle three major issues that ultimately affect pricing: fragmented infrastructure, transaction costs and payment routing.

To support the ideal state, payment rails will need to move from disparate platforms to a connected infrastructure.

Infrastructure

Less than half of executives surveyed have a consolidated view of revenue streams across their financial institution. That means most revenue management teams are tasked with fixing problems they can't see, which can lead to serious consequences both internally and externally.

Of the executives we surveyed, 44 percent were in the process of consolidating their payments platforms into a single system, and more than a dozen had already completed the transition. A quarter of the financial institutions consolidated payment and non-payment cards into a single platform, signalling a strong commitment to transform business as usual.

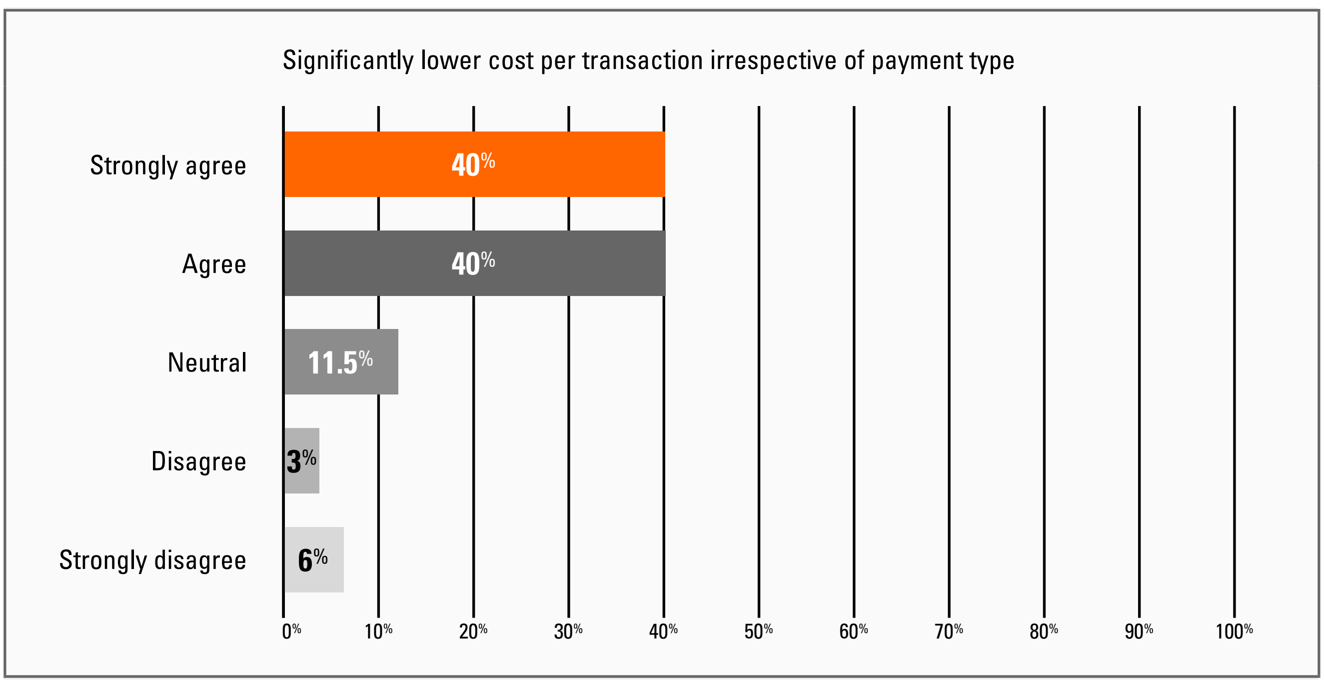
A single source of data enables more advanced analytic capabilities and greater transparency. By consolidating payments infrastructure, executives gain better visibility over the payments business while retaining control of auditing and compliance issues.

Transaction Costs

Financial institutions understand they must lower costs to compete.

Eighty percent of respondents said transaction costs must fall for financial institutions to hold off new market entrants. Unfettered by legacy infrastructure, systems and overhead costs, non-bank competitors are targeting profitable business lines and luring consumers and businesses away with lower prices.

Within the next three years what does my bank need to offer to be competitive?



Source: 2019 Global Payments Survey Report, Payments Transformation: Building a Vision Which is Instant, Seamless and Secure, From Finextra with Fiserv.

A potential cost-saver is reducing manual processes. Too many financial institutions rely on spreadsheets and manual steps to manage billing operations. Outdated and inefficient processes are causing waste and revenue loss, putting organizations at risk.

Through automation, financial institution can find strategic and effective ways to manage their systems and processes. Automation can increase operational efficiency and lower the time, staffing needs and fees associated with each processing cycle.

Payment Routing

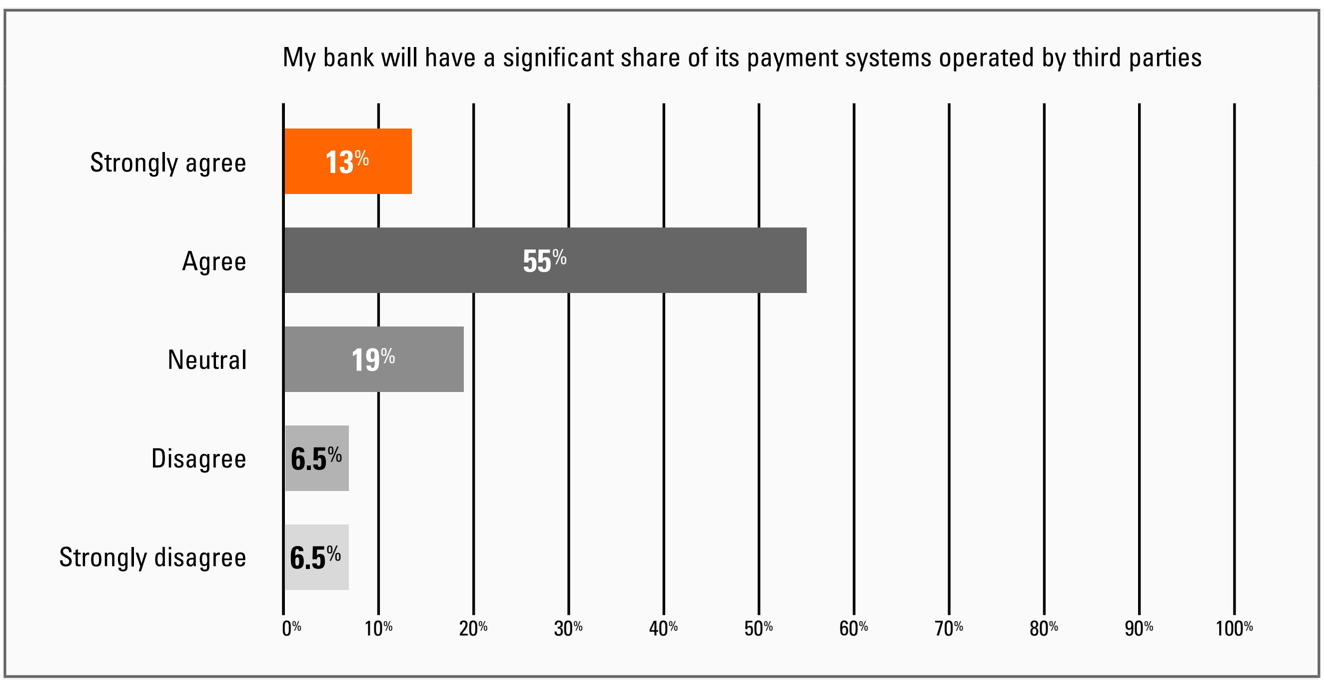
Over the next three years, 86 percent of respondents favor automated or intelligent routing for payment transactions. They envision a future in which the most effective, economical and secure transaction rail is selected and executed automatically.

The current situation puts the onus on consumers and businesses to understand the intricacies of each payment instrument. Instead, financial institutions should employ technology to determine the best means of transit, based on data provided.

The result will be akin to an Amazon-style model: consumer input will lead to recommendations, and consumers will select multiple payment types from a single tool.

To support the ideal state, payment rails will need to move from disparate platforms to a connected infrastructure. The boundaries between rails are already blurring. Foreword-thinking financial institutions are erasing the lines completely, making it easier for financial institutions to provide better service.

Over the next three years, to what extent does my bank agree with the following regarding its payment systems?



Source: 2019 Global Payments Survey Report, Payments Transformation: Building a Vision Which is Instant, Seamless and Secure, From Finextra with Fiserv.

Partnership

The stoic, self-reliant approach to IT and systems is fading as payments technologies become more complex and costly to manage.

In our survey, 68 percent of executives anticipated using third-party vendors to operate a significant share of their payments systems over the next three years; 74 percent said they believe most of their systems will be managed in the cloud versus on-premise. There is a clear shift toward developing third-party relationships and migrating to hosted solutions.

When selecting a partner, executives said they look for vendors with integrated offerings. Integrated fraud support ranked highest on the "must have" list, followed closely by integrated reconciliation and billing expertise.

Sixty-eight percent of executives anticipated using third-party vendors to operate a significant share of their payments systems over the next three years.

More Change Ahead

Financial institution executives who participated in the survey gave us their earnest predictions about their plans for the future. In reality, there is no end state, because payments transformation is a journey. Changes in technologies, markets and consumer preferences will continue to change how everyone pays for goods and services.

Solutions may come from unlikely sources and surprising new partners. Financial institutions that remain flexible and open to new business models and opportunities will continue to thrive.

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