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# Value-Added Services in Payments: A Strategic Opportunity

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Prepared for:



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# Executive Summary

Technological innovation and changing consumer preferences are driving a fundamental transformation in the payments industry. This white paper examines the challenges and opportunities facing card issuers today and presents a comprehensive solution for navigating the rapidly evolving landscape. The key findings from this paper are as follows:

- **Revolutionary market changes:** The payments ecosystem has moved far beyond traditional card transactions, with consumers having access to multiple payment options across various channels and platforms.
- **Operational complexity:** Financial Institutions (FIs) face mounting challenges from legacy systems, increasing fraud risk, and the need to manage an expanding array of services and capabilities.
- **Competitive pressure:** The entry of neobanks, fintechs, and big tech (e.g., Apple) has intensified competition, and large FIs have increased their presence due to market consolidation and larger budgets. At the same time, diverse loyalty programs and payment alternatives have made maintaining customer relationships more complex.
- **Data-driven solutions:** Success in this new environment requires a holistic, integrated approach to payment delivery that leverages data analytics, artificial intelligence (AI), and multichannel communication strategies.

# Introduction

The traditional card-centric payment model is evolving into a complex ecosystem of payment options, channels, and experiences. FIs must adapt their approaches to program management and customer engagement to remain competitive and differentiate their offerings in this rapidly changing environment. This adaptation requires moving beyond siloed systems and embracing an integrated technology stack that enables seamless payment experiences while unlocking actionable customer insights. The transformation of payments presents challenges and opportunities for FIs seeking to differentiate themselves in the market.

## Methodology

This white paper, sponsored by FIS, is based on interviews with industry experts, internal Datos Insights data sets, and research from third-party data sources.

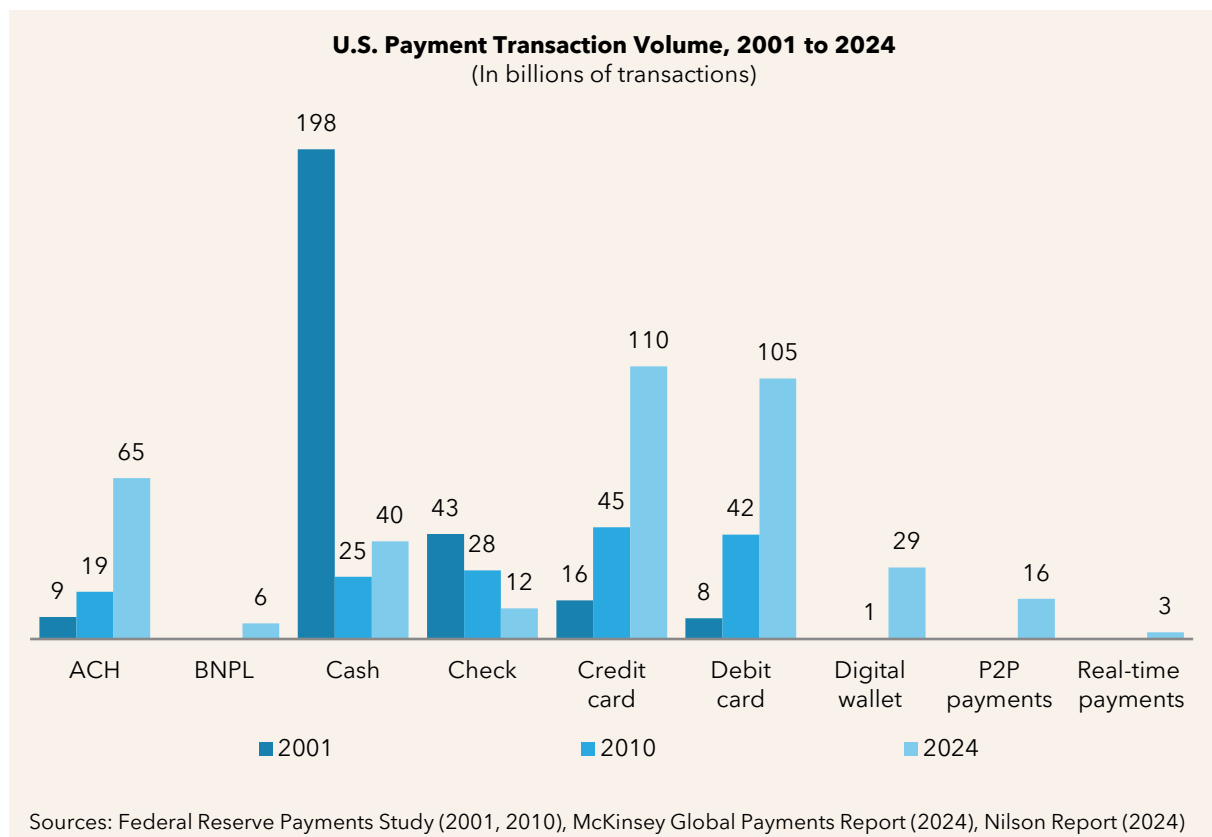
# Payments: A Rapidly Evolving Landscape

The traditional card-centric payment model is quickly giving way to a diverse and complex ecosystem wherein consumers make situational payment decisions based on their specific needs and circumstances at a specific point in time. This transformation is evident across multiple dimensions of the payments ecosystem.

## The Proliferation of Payment Alternatives

Today's consumers have unprecedented payment options at the point of sale—both digital and in-store. The traditional choice among checks, credit and debit cards, and cash has expanded to include peer-to-peer (P2P) payments; digital wallets; buy now, pay later (BNPL) services; and more. The emergence and growth of new payment types have been recent (Figure 1).

**Figure 1: U.S. Payment Transaction Volume, 2001 to 2024**



Payment decisions have become increasingly situational, with consumers selecting different payment methods based on specific transaction contexts and personal preferences. This proliferation of choice has fundamentally altered how FIs must approach their card programs and related services.

## Legacy Systems Under Pressure

Beyond the proliferation of payment alternatives and channels, FIs often find themselves constrained by disparate legacy systems that offer limited cross-platform capabilities, hindering their ability to provide payment choices and deliver unified customer experiences. The accelerating pace of technological change makes managing additional services increasingly difficult and expensive. These technical limitations can create operational inefficiencies and hinder institutions' ability to compete effectively.

# The Challenges of Offering Cards in a Disruptive Environment

Competition from large FIs, neobanks, fintechs, and big tech continues to increase. FIs need to find a way to provide their customers with the payment choices they seek, along with a value proposition that's sufficient to maintain and improve their relationship.

FIs face three primary challenges to adapt to the changing ecosystem: high operational costs and risks, identifying and growing revenue opportunities, and meeting competition.

## High Operational Costs and Risks

The continuous growth in transaction volume requires sophisticated processing capabilities that maintain speed and security. Recent industry data indicates that 57% of financial services organizations reported increased fraud in the past year.<sup>1</sup> These findings highlight the critical need for enhanced security measures. These operational challenges require substantial investments in technology and risk management infrastructure.

## Identifying and Growing Revenue Opportunities

Payment processing generates vast amounts of valuable data, but this information often remains untapped due to technical and organizational limitations. Many institutions lack the technology and expertise required to capitalize on growth opportunities with existing and prospective customers. The inability to effectively leverage data for targeted, personalized marketing and engagement represents a significant missed opportunity for revenue growth and customer acquisition and retention.

## Intensifying and Meeting Competition

Customer expectations for seamless digital experiences continue to rise, driven by innovations from traditional and nontraditional competitors. Many neobanks, fintechs, tech giants, and other FIs are creating new value propositions and deploying diverse loyalty and rewards programs at scale that target specific market segments with unprecedented precision.

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<sup>1</sup> "2024 State of Embedded Finance," Alloy, July 2024, accessed January 2025, <https://www.alloy.com/state-of-fraud-benchmark-report-2024>.

Here are a few examples:

- For PayPal's debit card, PayPal is offering 5% cash back for transactions within a customer-selected retail category (e.g., groceries, gas) up to US\$1,000 per month.
- Traditional FIs are offering digital card issuance to simplify customer onboarding and enable online and mobile payments quickly and safely. Visa estimates that more than half of the U.S. FIs were offering digital issuance in 2024.<sup>2</sup>
- Larger FIs are rolling out AI-enabled chatbots, such as Erica from Bank of America and Eno from Capital One. Intelligent chatbots are a precursor to offering proactive AI-driven (agentic AI) agents to assist in managing a customer's financial needs. Agentic AI has the potential to act on customer requests with little input from the customer. This will deepen the customer's relationship with their FIs and lessen opportunities to move to another institution.

The traditional focus on maintaining "top of wallet" status continues, but as the ecosystem proceeds to add different payment alternatives and competitors are creating new value propositions, "top of wallet" has evolved into a more nuanced battle to deliver the payment alternative the consumer wishes to when, where, and how they choose to use it.

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<sup>2</sup> "Instant Digital Issuance: Best Practices on Fraud Management," Visa, accessed February 20, 2025, <https://corporate.visa.com/content/dam/VCOM/global/services/documents/instant-digital-issuance-best-practices-on-fraud-management.pdf>.



# The Solution: A Holistic View of Payment Delivery

More payment types, more commerce channels, legacy platforms, and increasing demands on technology create an environment where it's very difficult to meet the needs of consumers, particularly with stand-alone systems that don't work together to deliver a holistic solution. To stay competitive, FIs can focus on three critical factors: a unified technology stack, enhanced customer engagement, and data-driven marketing.

## Integrated Platform Strategy

Success in the modern payments landscape requires a unified technology stack that efficiently delivers capabilities while optimizing costs. This integrated approach should feature straightforward implementation processes while maintaining the flexibility to adapt to future needs. Modern platforms incorporate AI-powered tools for fraud prevention and customer insight generation, supported by a data-centric model that enables rich analytics across all payment activities.

Modernizing the technology infrastructure provides additional functionality and simplified operations. Moreover, it can reduce the number of required systems and automate labor-intensive manual processes, leading to lower operational costs.

The future of digital banking is moving toward complete distribution and embedding of banking services within the applications and platforms where customers naturally spend their time. As one digital executive noted, "Banking is going to become fully distributed and fully embedded in all these other apps... Being forced to log into a banking app to execute banking business is becoming obsolete."

Digital services must evolve beyond traditional banking to provide these at the least:

- Seamless integration with third-party applications and services
- Advanced card management capabilities for consumers and businesses
- Real-time transaction monitoring and control
- Embedded banking experiences within nonfinancial applications

FIS' Card Suite is a state-of-the-art digital platform designed to provide FIs with the ability to quickly adapt and integrate new capabilities so they can remain competitive as the payment ecosystem evolves.

## Customer Retention via Enhanced Engagement

Effective customer retention strategies must extend beyond traditional card rewards programs to encompass a variety of different approaches to customer loyalty. Modern engagement programs include targeted equity loyalty initiatives based on detailed customer behavior analysis, offering a mix of refunds, discounts, experiential rewards, and traditional point-based incentives.

State-of-the-art loyalty programs should go beyond traditional points-based rewards to include the following:

- Enterprisewide relationship rewards
- Real-time redemption options at the point of sale
- Experiential rewards and privileges
- Gamification elements to drive engagement

Recent implementations of gamification in mobile banking have shown remarkable results, with some institutions achieving 30% customer engagement rates through programs that combine gameplay elements with transaction incentives. FIS Loyalty Solutions integrates relationship rewards, experiential rewards, enterprise loyalty, and real-time loyalty redemption at the point of sale to provide issuers with a complete set of strategic tools to retain customers and optimize their value to the FI.

## Revenue Growth Through Data-Driven Marketing

Successful FIs are adopting multichannel marketing approaches that reach customers across all relevant touch points. These strategies employ highly targeted, personalized messaging and offers based on comprehensive customer data analysis. Continual optimization through systematic testing and measurement ensures maximum marketing effectiveness. The key to successful data-driven marketing is analyzing the mass of data that is generated from customer behavior and then identifying implementation strategies.

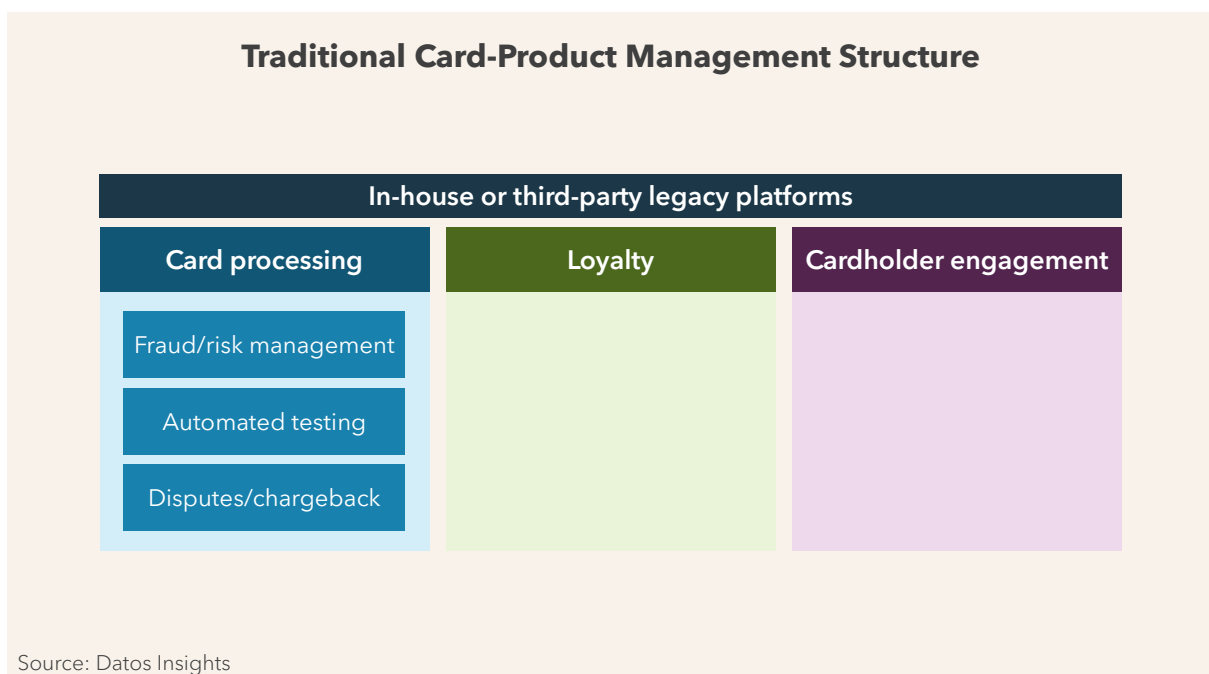
Effective marketing in the modern payments environment requires the following:

- Data-driven campaign segmentation and targeting
- Multichannel communication strategies
- Real-time offer management
- Retention analytics and reporting

Success in this area requires sophisticated technology and expert support. For example, FIS Payments Edge provides end-to-end campaign management combined with advisory services that help FIs optimize their card marketing strategies.

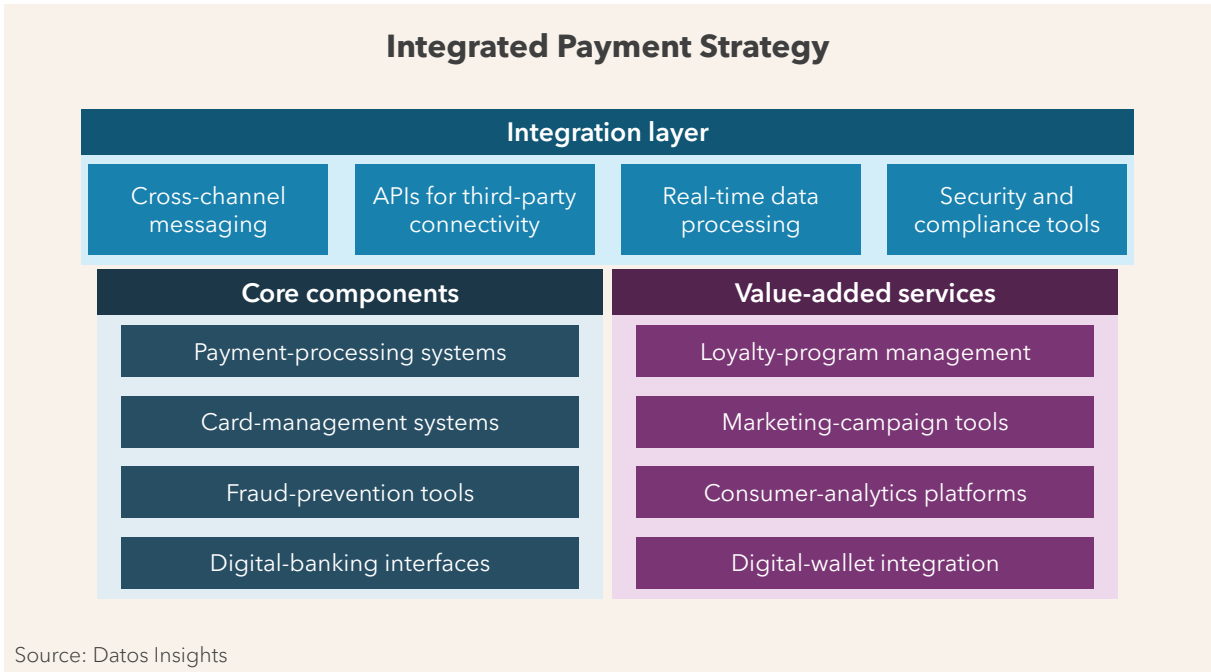
Traditional card processing built around legacy platforms does a great job processing transactions, but that's not enough to retain customers and increase revenue. Each area—card processing, loyalty, and cardholder engagement/marketing—delivered specific functions, but the structure was complex, and interaction between the functions was necessarily limited (Figure 2).

**Figure 2: Traditional Card Product Management Structure**



The solution to these challenges lies in a technology stack designed for flexibility, efficiency, and effective delivery. The modern payments technology stack integrates all the components supporting the card program working together to deliver comprehensive payment capabilities, delivered through a digital platform to optimize flexibility (Figure 3).

**Figure 3: Integrated Payment Strategy**



This illustration is only an example of the services, capabilities and functionality that can be incorporated into an integrated platform. FIs can incorporate additional value-added services as required.

## Conclusion

The payment space continues to evolve at an accelerating pace, requiring FIs to fundamentally transform their approach to card management. Success in this environment demands several key elements:

- Institutions must adopt a holistic, integrated approach that focuses on understanding and responding to customer behavior patterns. This customer-centric strategy should inform all aspects of program design and execution.
- Modern technology infrastructure that enables rapid innovation and adaptation to changing market conditions is crucial for long-term success. Legacy systems and manual processes must be replaced with integrated, automated solutions.
- Data-driven decision-making and personalization capabilities have become essential for competing effectively in the modern payments landscape. Institutions must develop the ability to collect, analyze, and act upon customer data in real time.
- Strong risk management and fraud prevention capabilities are essential for protecting institutions and their customers in an increasingly complex threat environment.

By partnering with the right technology provider, institutions can transform their payment operations to reduce costs, grow revenue, and deliver the seamless experiences customers expect.

### FIs:

- Embrace digital transformation with a focus on embedded banking experiences
- Implement innovative loyalty programs that combine traditional rewards with modern engagement techniques
- Leverage data analytics to drive personalized customer experiences
- Act quickly to establish competitive advantages in a rapidly evolving market

The accelerating pace of change makes modernization an urgent priority for institutions seeking to remain competitive in the digital age. Those that fail to adapt risk falling behind more agile competitors and losing customers and market share to innovative new entrants.

## About FIS

FIS is a financial technology company providing solutions to FIs, businesses, and developers. The FIS payments ecosystem helps to enhance efficiency and control, unlocking valuable customer insights and delivering seamless digital experiences that fuel revenue and growth—all with a single technology provider.

We unlock financial technology to the world across the money life cycle underpinning the world's financial system. Our people are dedicated to advancing the way the world pays, banks, and invests by helping our clients to confidently run, grow, and protect their businesses. Our expertise comes from decades of experience helping financial institutions and businesses of all sizes adapt to meet the needs of their customers by harnessing where reliability meets innovation in financial technology.

Headquartered in Jacksonville, Florida, FIS is a member of the Fortune 500 and the Standard & Poor's 500 Index.

# About Datos Insights

Datos Insights is an advisory firm providing mission-critical insights on technology, regulations, strategy, and operations to hundreds of banks, insurers, payments providers, and investment firms—as well as the technology and service providers that support them. Comprising former senior technology, strategy, and operations executives as well as experienced researchers and consultants, our experts provide actionable advice to our client base, leveraging deep insights developed via our extensive network of clients and other industry contacts.

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