



WHITE PAPER

# MASTERING THE EVOLUTION OF ACCOUNT-TO-ACCOUNT PAYMENTS

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# MASTERING THE EVOLUTION OF ACCOUNT-TO-ACCOUNT PAYMENTS

**As the world moves towards a global interconnected digital economy, the payments landscape is rapidly transforming. Change is happening at an unprecedented pace, driven by new technologies, shifting customer behavior and evolving regulations. This has led to an explosion of payment types, making it more challenging than ever for banks and payment providers to navigate the payments ecosystem. Standardization, interoperability, speed and agility are critical factors for businesses to compete and succeed.**

The rise of instant payments further accelerates the pace of change, requiring businesses to quickly adapt to new payment methods to stay competitive. Additionally, the importance of cloud and SaaS solutions cannot be overstated, as businesses seek cost-effective, scalable and secure payment solutions.

With so many payment types and providers available, it's no wonder that trust and certainty have become essential elements in the increasingly commoditized payments landscape. Customers expect their payments to be fast, secure and reliable. Whether you're a consumer making a purchase online, a business paying its suppliers or a financial institution settling transactions, payment systems must be reliable, secure and efficient.

**“Technological innovations will be the heart and blood of the banking industry for many years to come.”**

**John Stumpf, former CEO of Wells Fargo**

In this white paper, we explore how banks can navigate the ever-changing payments landscape with confidence, certainty and trust, while also addressing the challenges and opportunities presented by the multitude of payment types, changing regulations and interconnected global economy.



# THE CHALLENGE

In today's fast-paced digital world, payment systems have become a vital part of our daily lives. They are the backbone of the digital economy, and keeping them up-to-date is critical to staying competitive and relevant. However, replacing a payment system is akin to major surgery involving vital organs -it can be costly, complex and risky. Against a backdrop of changing standards and regulations, the task is all the more challenging. Add to the mix the blurring of the lines between payment types and an increasingly interconnected web of payment methods, and it can be truly daunting and bewildering to navigate today's payments landscape.

It's no surprise then that Capgemini states in its latest World Payments Report that "traditional banks and payment service providers are struggling to provide innovative solutions to small and medium businesses (SMBs) [...]. As a result, nearly 90% of SMBs say they are reconsidering their relationships with their incumbent providers, leaving open space for fintechs and others to gain competitive advantage." With innovative disruptors taking advantage of the latest technology and regulations to encroach on the space traditionally occupied by banks, the threat to financial institutions is clear.

**"The cloud services companies of all sizes... The cloud is for everyone. The cloud is a democracy."**

Marc Benioff, CEO of Salesforce.com

The commoditization of payments and the associated pressure on costs and margins push many organizations toward the cloud. In this new age of outsourcing mission-critical business components, certainty and trust are of paramount importance.

Payment modernization programs are not for the faint of heart. However, with the right strategy, solution and partner, financial institutions can overhaul their payment systems successfully.

**Get ready for a world of globally interconnected and interoperable instant payment rails.**





# FINDING MARKET CERTAINTY

**“It is not the strongest of the species that survives, nor the most intelligent, but the one most responsive to change.”**

Charles Darwin, naturalist and biologist

In today's context of technological evolution and shifting customer expectations, there are some certainties that we can bank on.

Cloud and SaaS (Software-as-a-Service) have revolutionized the way businesses operate. The cloud – private or public – has become ubiquitous, allowing businesses to access software and applications over the internet, without the need for on-premise hardware. Regulators in an increasing number of countries are green-lighting cloud-based payment initiatives. The security and reliability of public clouds no longer need to be proven. Financial institutions can now take full advantage of the benefits of cloud and SaaS solutions. From scale and elasticity to faster time to market, the benefits are not easily quantifiable. It's not only a question of total cost of ownership (TCO). Outsourcing commoditized payment processing allows you to focus on your core business and maximize innovative revenue streams.

Payments are accelerating. The past few years have seen the introduction of domestic instant payment schemes in most developed economies. In a world of instant information and real-time data, customers have come to expect immediacy in all things digital. Payments are no exception.

**“Increasingly, people and businesses want to know when they can get their money, and how these times can be cut down to minutes.”**

Harry Newman, Head of banking strategy at SWIFT

Saying that instant is the new normal has become something of a cliché. It is, however, worth mentioning that this is true today only for domestic payments. The next frontier is instant cross-border payments, an area where most traditional banks have yet to catch up to customer expectations.

Increased componentization, microservices architectures and interoperability require modern payment solutions to embrace APIs to integrate into complex ecosystems. Whether the APIs are used to communicate internally between bank systems or externally to adhere to open banking regulations, they must be fast and secure. The new normal of instant payment processing means batch-based interfaces are no longer an option.

Customers – and regulators – are now seeing 24/7 as a baseline. Always-on is the new paradigm for payment solutions, and any downtime can lead to an embarrassing avalanche of angry tweets. Straight-through processing (STP) has always been a holy grail of the industry, aiming to increase processing speed, decrease costs and avoid delays and errors. Artificial intelligence and machine learning have already disrupted a number of industries and will undoubtedly change payment processing in the years to come with – at the very least – significant increases in STP rates.

**“There is nothing permanent except change.”**

Heraclitus, Greek philosopher

To keep up with change in today's and tomorrow's fast-paced world, agility is critical. Embracing modern technology that is componentized is the only viable strategy for the long term. Payment modernization programs cannot succeed as a big bang. A step-by-step gradual implementation is necessary. That can only come from a componentized architecture that is open to future change as and when it comes.



# FINDING CAPABILITY CERTAINTY

While technology and architecture are paramount, payment modernization programs must serve the business and the bank's clients, whether retail, corporate or institutional. In order to align IT implementation with business priorities and benefits, a capabilities-focused approach is needed. Capability can be evaluated along two axes. The vertical axis looks at the end-to-end payment process, segmenting it into order management, payment execution and peripheral capabilities such as integration microservices and payment data store. The horizontal axis of capability is about payment types and rails, from traditional ACH-type payments (e.g., SEPA Credit Transfers, SEPA Direct Debits, US NACHA ACH), through to international correspondent banking (SWIFT) and high-value payments (RTGS) as well as real-time instant payments (SCT Inst, US RTP, AU NPP, etc.).

**"The future belongs to those who can rise above the technology and master it."**

Jamie Dimon, CEO of JPMorgan Chase

Certainty is assured when the required capability is delivered out of the box without the need for customization but with sufficient configurability to meet the bank's unique needs and vision. Each bank's deployment model must also be catered for whether it be traditional on-premise, public or private cloud or SaaS.

Today's fast-changing payments landscape is seeing a gradual blurring of borders between payment types. Where yesterday there were clear delineations between RTGS and ACH payments, in today's market a payment may be eligible for clearing through multiple different payment rails. Flexible payment routing is, therefore, a key capability to satisfy demanding customer expectations. A siloed approach to payments is no longer viable as payments may switch from one rail to another depending on market conditions, customer requirements or business priorities.

**Modern banks need a cohesive componentized modular payments infrastructure.** A single monolithic payments hub cannot adequately respond to the speed of change of today's fast-changing environment in which new payment schemes are introduced and existing payment rails become interconnected.

**"If someone builds a solution for a domestic purpose, it's going to be hard to work internationally. [...] Standardization is a key step. Interoperability is really hard."**

Harry Newman, head of banking strategy at SWIFT

The introduction of SEPA One-Leg Out Credit Transfers and the pilot program that saw the linking of the European instant RT1 clearing system with US-based TCH's RTP network, as well as SWIFT's gpi Instant initiative, are examples of market evolutions forcing banks to rethink their payments ecosystems allowing payments to freely flow between cross-border and domestic markets.

Southeast Asia is another hotbed of payments innovation. Singapore, Thailand, Malaysia, the Philippines and Indonesia have embarked on a journey to link their instant payment systems. The first phase saw the successful connection between Singapore's PayNow scheme and Thailand's PromptPay. Such initiatives are challenging for local banks but even more so for large regional and global players. The more countries an institution operates in, the more changes they are subjected to. A country-by-country approach is no longer suited to today's increasingly interconnected world. Banks – and solutions – need to consider payments from a regional or global perspective.

As the world becomes increasingly interconnected, payments interoperability is critical for businesses to operate on a global scale. One key to thriving in this new interconnected landscape is standardisation and in particular ISO 20022.

**"I will always feel a bit of affection, love even, for ISO 20022 – the humble standard, understood by but a small group of people globally, that acts as a crucial ingredient for the future of international commerce and trade."**

Liz Lumley – Journalist for The Banker

SWIFT's migration to ISO 20022, and a wave of RTGS migrations led by TARGET2 and CHAPS in the Europe or RENTAS and BAHTNET in Asia, are further proof of the importance of this standard. Not only is it key in facilitating the interconnectivity of payment rails, but it's now essential throughout the bank, impacting all systems that communicate with payment systems, from core banking to sanctions screening through to customer information systems. For a bank selecting a new payment system, ISO 20022 must not be seen as an afterthought, simply a matter of messaging and formatting. Instead, it would be wise to opt for a solution with ISO 20022 woven into its very DNA.

With new initiatives like confirmation of payee (COP) popping up worldwide, and an ever-increasing use of open banking and instant payments, banks need a trusted partner that can span the entire payments value chain and offer rapid speed to market. Providing such capability and agile flexibility through easy-to-buy, easy-to-use products and services, your trusted partner should allow you to focus your initiatives on optimizing the customer experience.

# FINDING FUTURE-PROOF CERTAINTY

**“In the beginner's mind there are many possibilities, but in the expert's there are few.”**

Shunryu Suzuki, Zen Buddhist monk and teacher

Predicting the future can be a tricky exercise. However, there is a way to escape that paradigm: Software-as-a-Service solutions free you from maintaining solutions to keep up with technical, regulatory and market changes. SaaS effectively insulates banks from change, freeing up resources and focus to concentrate on areas of business growth.

It's time to **embrace the commoditization of payments.**

With SaaS, banks can move from high-cost in-house models to low-cost hosted models in which continuous enhancements and modernization of the solution are part and parcel of the service. This helps your bank not only keep pace but also get ahead of the competition.

Cloud and cloud-native technologies are also important when it comes to scaling up systems to deal with increasing volumes. In the coming years, large chunks of traditional batch-based ACH payments will move towards real-time processing. Being able to scale up elastically is an essential consideration when dealing with the evolving payments landscape.

As more real-world use cases are supported by instant payments and a growing number of overlay services are concocted by innovators and market authorities, the need for agility in adopting new solutions is also key. A modular architecture, in which components can easily be added or modernized independently from one another, is a natural fit for today's and tomorrow's fast pace of change.

**“The goal is to turn data into information and information into insight.”**

Carly Fiorina, former CEO of Hewlett Packard.

With the Age of Big Data well and truly upon us, it's important to understand the role of data in payments. In today's digital age, data has become an essential tool for businesses in many industries. By collecting and analyzing data, companies can gain valuable insights into their customers' behavior, which can help them make informed decisions.

The uptake of the ISO 2022 standard means that payments contain more data with more structure. With the introduction of open banking, payments can now be initiated through channels that do not belong to the bank, and third parties have access not only to the payment data but the valuable metadata that provides insights into customer behavior. Data stores have become an essential part of any modern payments architecture providing data collection and storage facilities at the very least. Value add comes from analytical tools and the ability to expose the data to the future machine learning and artificial intelligence systems that are just over the horizon.

One key benefit of a SaaS versus a traditional on-premise solution is that the service is always up to date. There's no need to worry about software upgrades, scheme compliance and rulebook changes, SWIFT releases and ISO 2022 messaging versions. Leave it to the professionals! Focus your resources on the business of payments and servicing your customers, and leave the nitty gritty nuts and bolts to a trusted third party.





The emergence of a global interconnected digital economy driven by technological disruptions and evolving customer behavior has created a complex ecosystem of payment types and providers. The rapidly evolving payments landscape necessitates a proactive approach from banks that need a trusted partner to deliver much-needed certainty throughout the bank's payment modernization journey.

Cloud and SaaS can play a pivotal role: they provide cost-effective and scalable solutions with fast time to market, thus keeping up with customer demand for fast, secure and reliable payments. Agility is key to thriving in today's and tomorrow's markets. Embracing componentized architectures allows for step-by-step phased migrations enabling banks to keep pace with evolving standards, regulations and market initiatives.

**"In the new world, it is not the big fish which eats the small fish, it's the fast fish which eats the slow fish."**

Klaus Schwab, Economist and founder of the World Economic Forum

By embracing the commoditization of payments and harnessing cloud-native solutions, banks can future-proof their systems to handle growing volumes and rapid changes. Increasing interoperability between payment rails and the ISO 20022-facilitated improvement of data structure and standardization provide opportunities for banks to explore new revenue streams while minimizing costs. Collaboration with trusted market-leading partners allows banks to focus on optimizing the customer experience and maximizing monetization. The ability to embrace change, leverage technological advancements and maintain customer trust will determine success in the dynamic world of payments.

Drawing on our deep industry knowledge, decades of experience and expertise in instant payments and cloud-based solutions, FIS can help you stay competitive in today's fast-paced market. Contact us today to learn more about our payment solutions and how we can help your business thrive.

## About FIS

FIS is a leading provider of technology solutions for financial institutions and businesses of all sizes and across any industry globally. We enable the movement of commerce by unlocking the financial technology that powers the world's economy. Our employees are dedicated to advancing the way the world pays, banks and invests through our trusted innovation, absolute performance and flexible architecture. We help our clients use technology in innovative ways to solve business-critical challenges and deliver superior experiences for their customers. Headquartered in Jacksonville, Florida, FIS ranks #241 on the 2021 Fortune 500 and is a member of Standard & Poor's 500® Index.



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