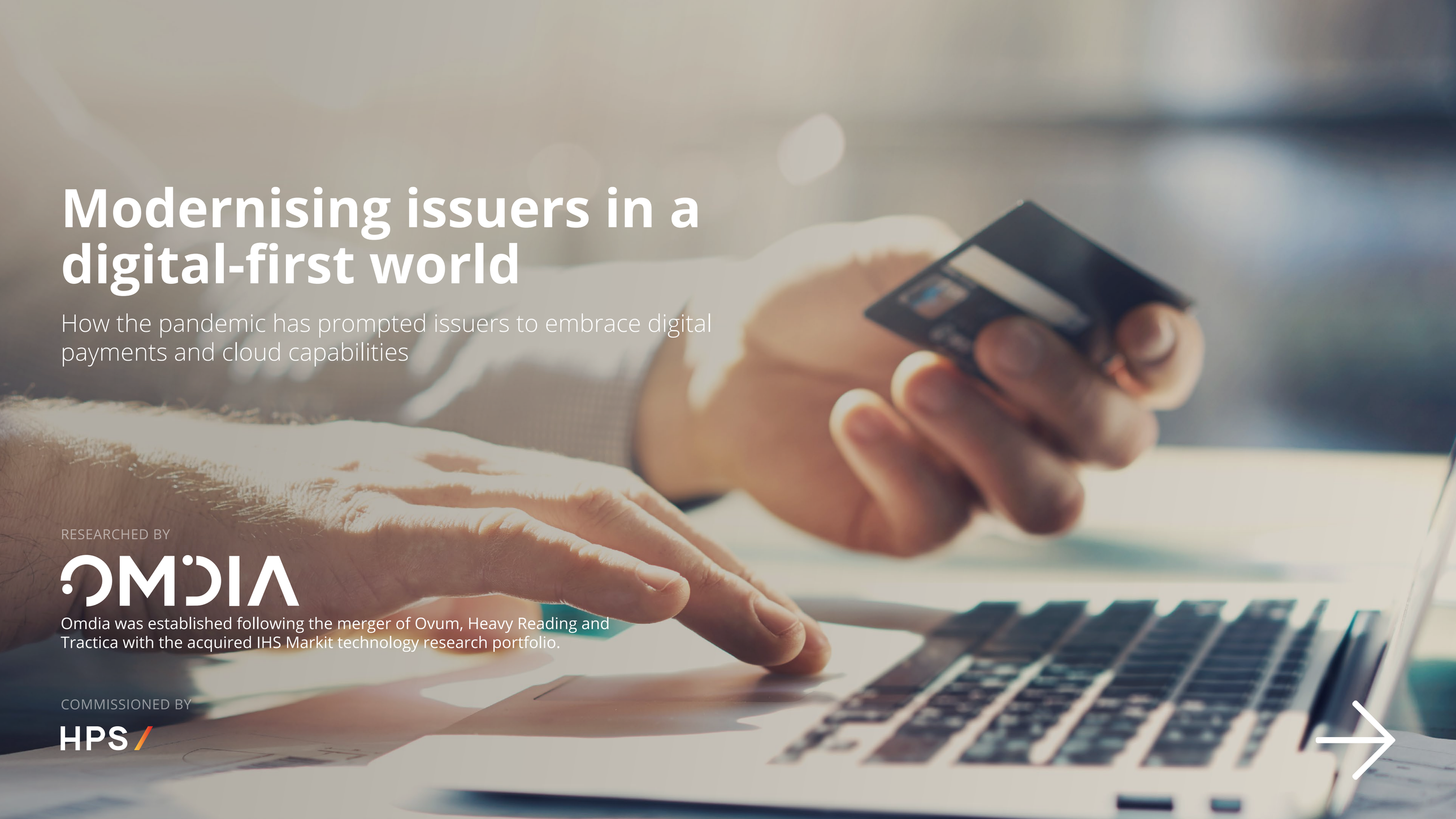
Modernising issuers in a digital-first world

How the pandemic has prompted issuers to embrace digital payments and cloud capabilities



RESEARCHED BY

OMDIA

Omdia was established following the merger of Ovum, Heavy Reading and Tractica with the acquired IHS Markit technology research portfolio.

COMMISSIONED BY

HPS

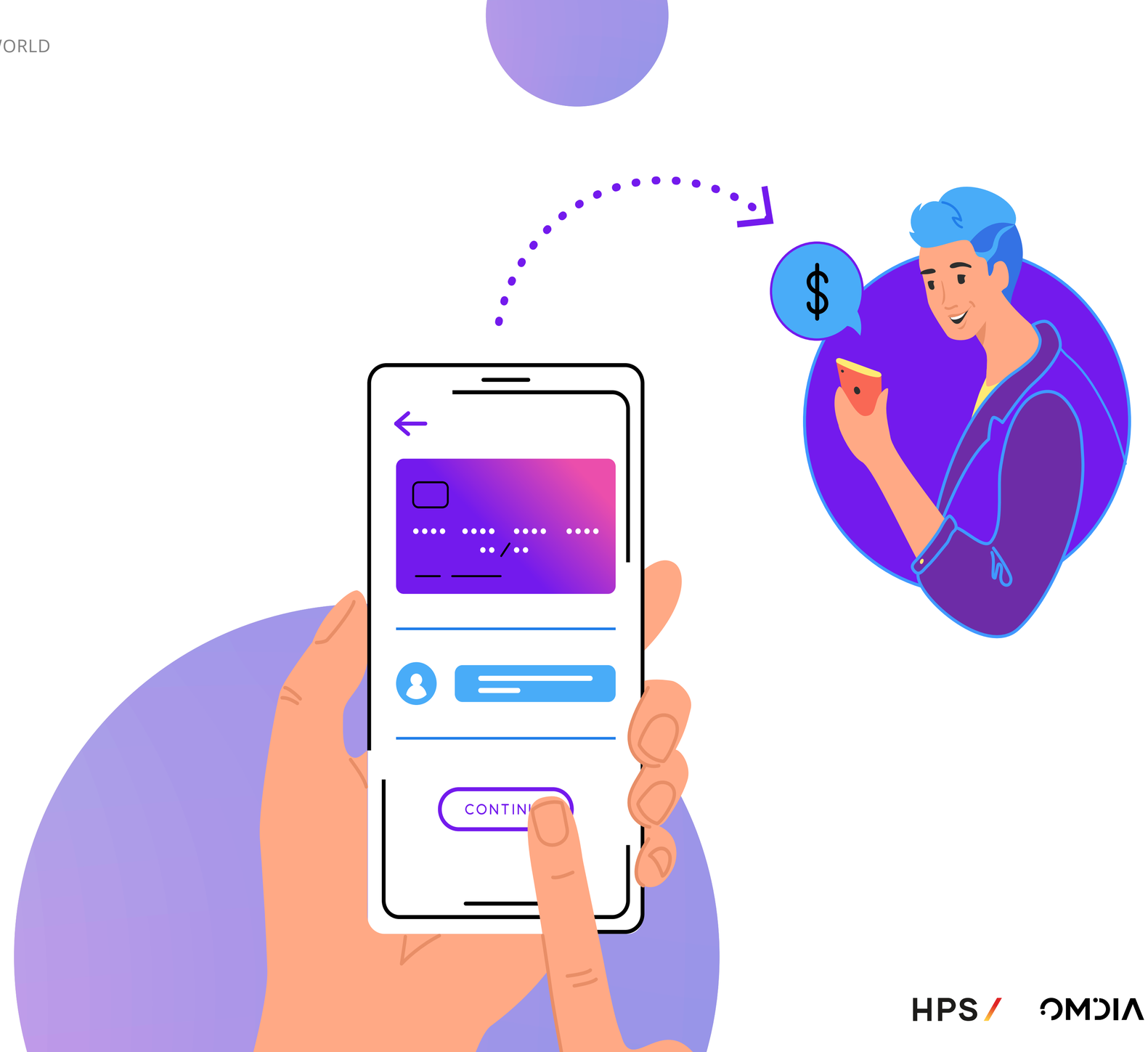
Contents

Catalyst

Issuers have struggled with the ever-thinner margins of traditional interchange business models and now turn to emerging digital payments as a new means of supporting revenue growth. While there is enthusiasm to adopt digital payments, the COVID-19 pandemic has highlighted the challenges of running legacy systems in a digital-first world. Issuers have struggled with their ability to support and orchestrate the high demand of digital payments, both in terms of volume and variety.

Issuers, particularly tier-1 banks, are having to keep pace with technology trends and accelerate product launches. How do issuer banks meet new and complex regulatory requirements whilst dealing with the ever-increasing competition?

This report, commissioned by HPS, outlines the key business, regulatory and technological challenges faced by issuers and provides analysis and recommendations of how to respond to these trends.



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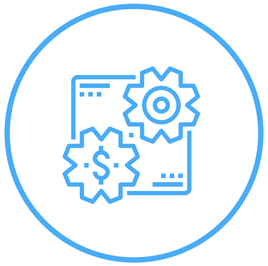
Key messages

Supporting emerging digital payments is key to survival

Digital payment acceptance is the priority for merchants

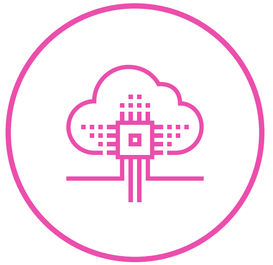
Issuers must prepare for the future of payments by adopting new digital payment tools



Modernising legacy systems is the top priority for issuers

COVID-19 has accelerated the need for a modern and flexible platform

Regulatory demands and the shift to open APIs require significant upgrade of payment systems



Cloud enables faster adoption of new payment strategies

Cloud facilitates a microservices architecture and phased-led approach to deployment

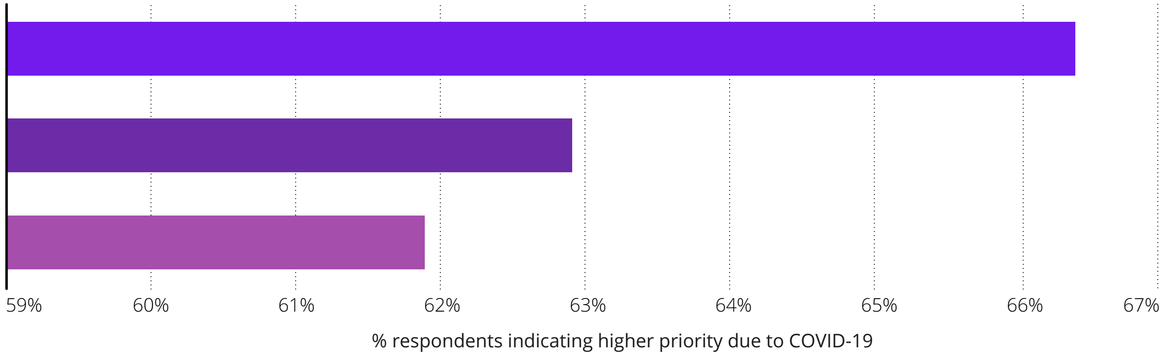
Cloud capabilities are fundamental to new product development and innovation

Supporting emerging digital payments is key to survival

COVID-19 accelerates e-commerce growth, boosting importance of digital payments

COVID-19 accelerated consumer demand for online shopping as many new, mainly small, businesses traded online for the first time. E-commerce increased in importance for more than two-thirds of retailers, particularly for those forced to shut stores during lockdown. However, there is now more convergence between the online and physical through click-and-collect, with payment increasingly handled digitally. European merchants anticipate digital sales to account for more than half of their turnover by 2022.

Top shifts in project priorities for retailers due to COVID-19



SOURCE: OMDIA

European retail shifting to digital-first

SOURCE: OMDIA

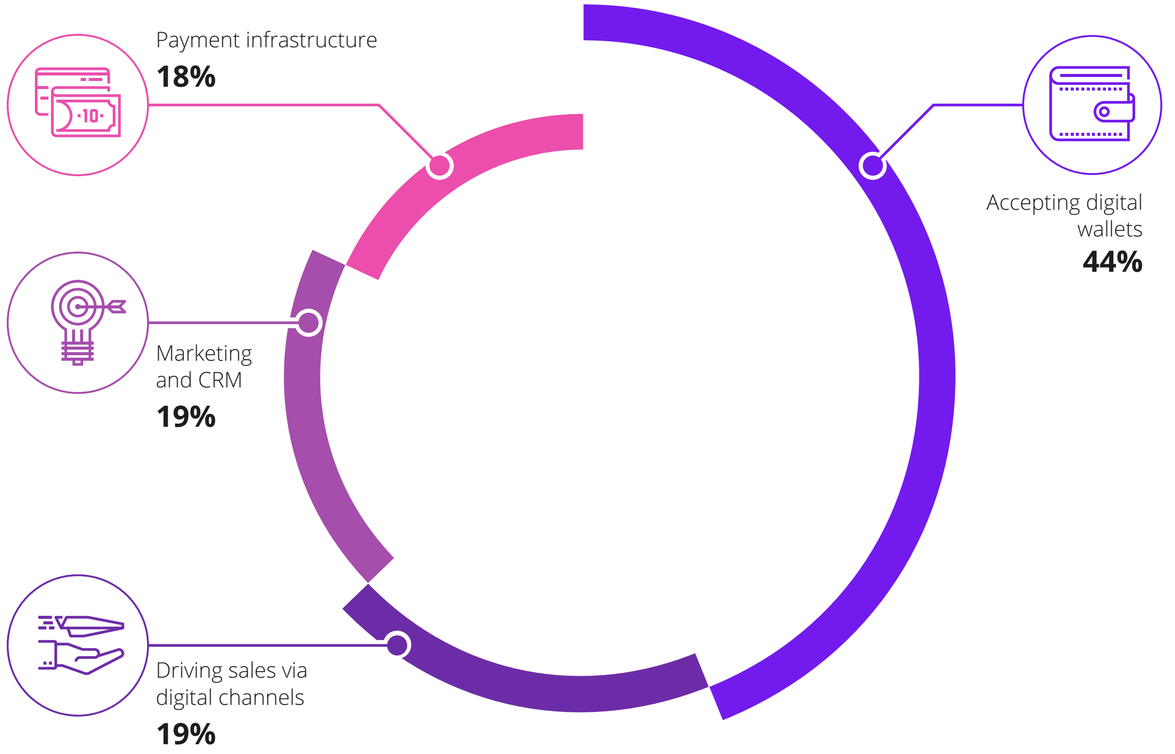
Digital wallets seen as top priority for merchants post-pandemic

COVID-19 has led to merchants reviewing payment processes due to changing consumer habits.

Accepting new payment tools, particularly digital wallets, is the number one priority for merchants.

Digital wallets improve conversion rates, with authentication being frictionless compared to debit/credit cards.

Top project priorities for merchants due to COVID-19



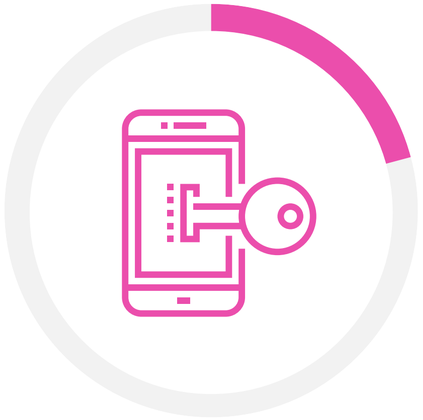
SOURCE: OMDIA

Digital wallets can remove friction caused by SCA

- Strong Customer Authentication (SCA) rules will be rolled out throughout Europe in 2021.
- SCA is being introduced to increase the security of online payments but requires multi-factor authentication, which adds friction to card payments.
- Issuers recognise the value of incorporating third-party wallets to address payment fraud and reduce friction caused by meeting SCA requirements.

Key investments to address retail payment fraud

Stronger onboarding for third party wallets
26%



Utilising mobile security technologies
21%

Integrating fraud detection systems
16%

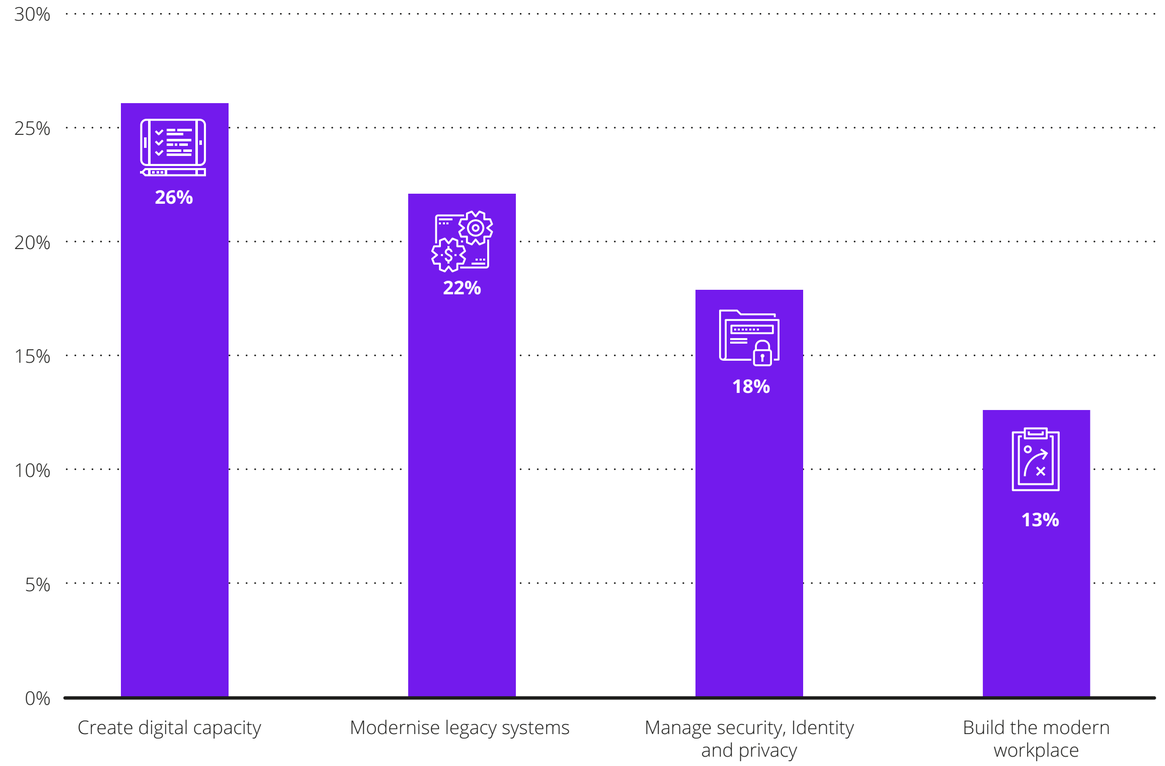
SOURCE: OMDIA

Modernising legacy systems is a top priority for issuers

COVID-19 increases importance of legacy modernisation despite revenue shortfall

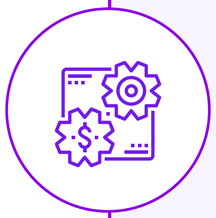
- Like all industries, the pandemic had a detrimental impact on revenue and IT budgets, with 76% of payments firms expecting their revenue to decline or stay the same in 2021.
- Pre-pandemic, 80% of issuers were expecting to increase IT investment spend in 2020, yet just 41% of respondents were able to do so.
- COVID-19 has shifted technology priorities and further accelerated the importance of legacy modernisation as well as creating digital capability as the world adapts to a remote-first environment.
- Managing security/privacy and building the modern workplace are also key technology trends – all of which can be improved through modernising legacy systems.

Modern systems underpin key technological priorities



SOURCE: OMDIA

Regulatory demands and increasing competition ensure system upgrades must be prioritised



The payments industry is being subject to increased regulatory demands ,such as PSD2 and ISO 20022, while also facing increased competition thanks to the evolution of open banking and open APIs, forcing payment firms to upgrade their systems in order to adapt.

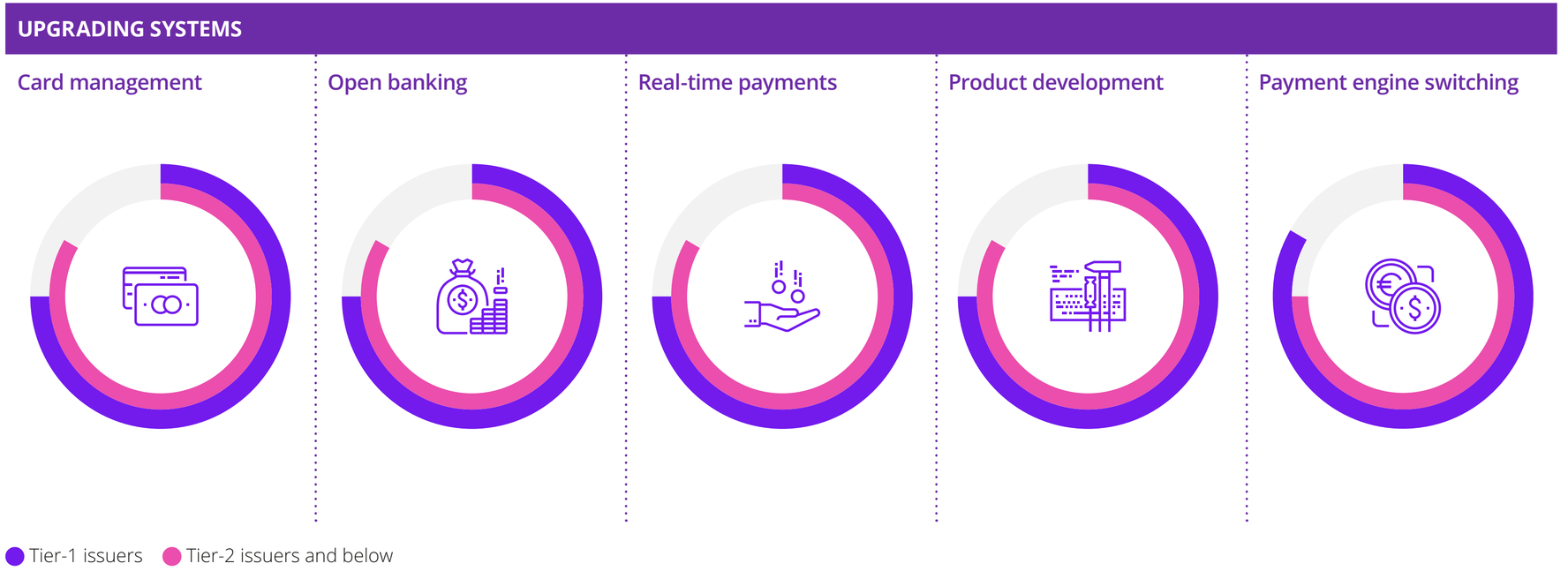
Open banking and open APIs will transform the role of issuers in the ecosystem in terms of both their relationship with the customer and their business models. Issuers need to interface with older systems without requiring major rewrites.

The introduction of real-time payment rails requires a platform that can support and orchestrate the high demand of digital payments, in terms of both volume and variety. They also enable banks to meet the variety of complex regulatory requirements without requiring a drastic overhaul of core IT systems.

Tier-1 issuers must respond to smaller, more nimble competitors

- Tier-1 issuers are behind the curve in terms of upgrading their legacy systems to support key business areas.
- Open banking, real-time payments and product development is a higher priority for tier-2 issuers and below.
- Although European tier-1 issuers have been forced to upgrade for regulatory reasons, they should ensure they continually invest strategically to keep pace with the competition.

Percentage of issuer banks planning upgrades to legacy systems in next 18 months



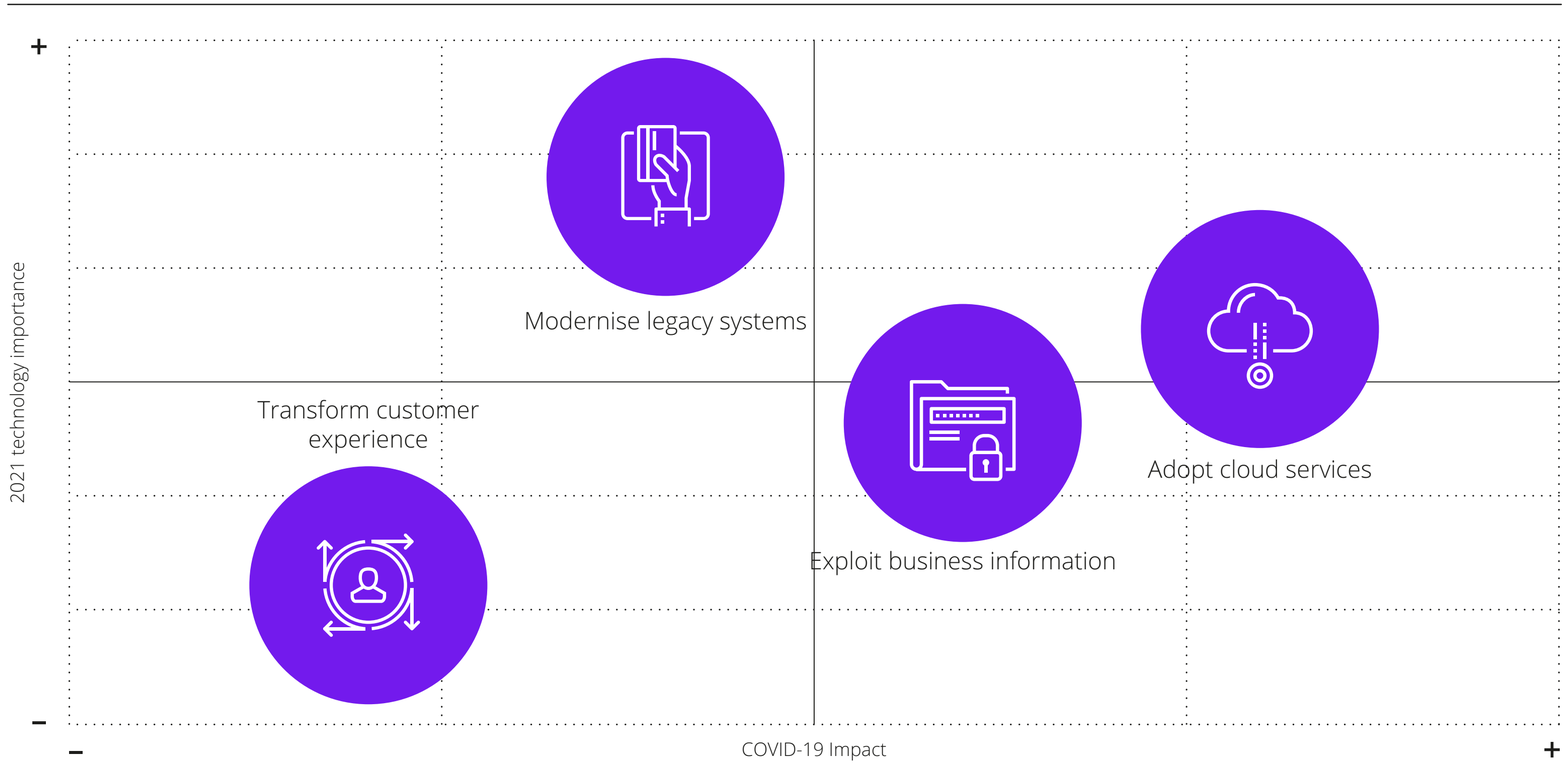
SOURCE: OMDIA

Cloud enables faster adoption of new payment strategies

Adoption of cloud services have become significantly more important post pandemic

- The use of cloud has grown rapidly, even for mission-critical workloads, and the appetite among issuers has radically changed because of COVID-19.
- 74% of European issuers now believe cloud is significantly more important to their strategy, whereas just 12% saw it as a top priority pre-pandemic.
- The urgent need to modernise legacy applications has benefitted the adoption of cloud services as issuers recognise that cloud deployment enables continuous delivery to be automated.

Legacy of COVID-19 will be faster cloud adoption



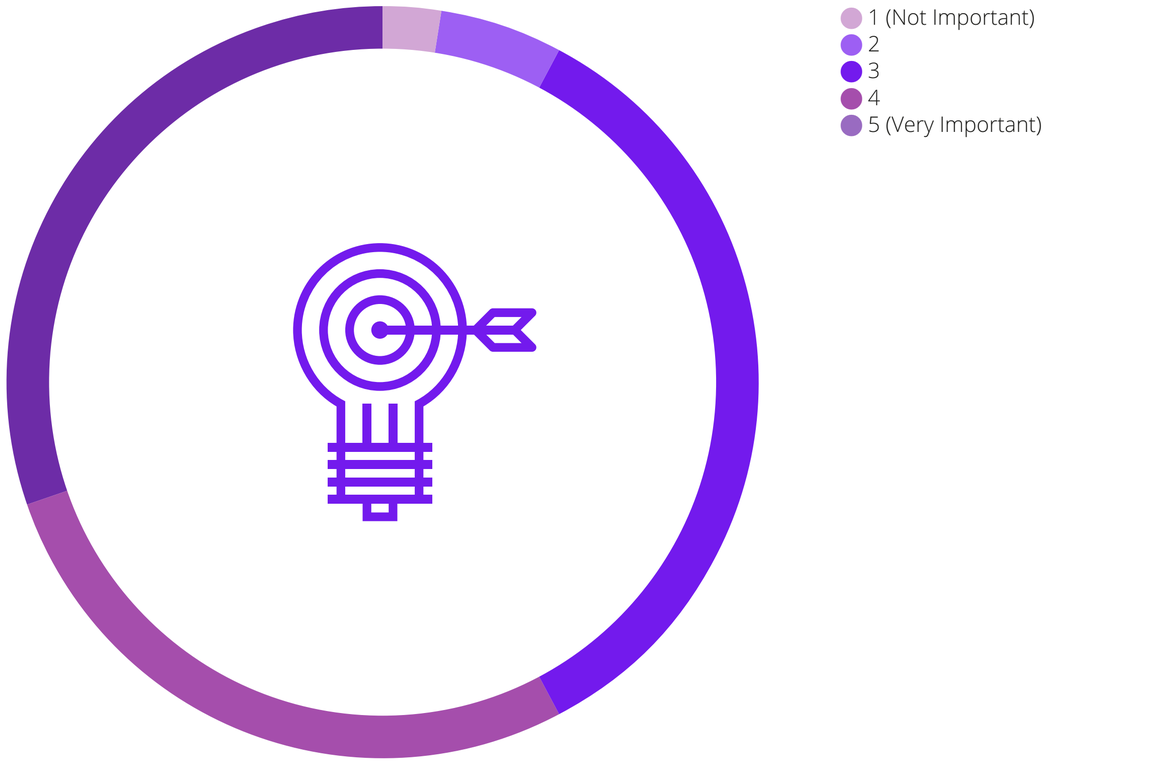
SOURCE: OMDIA

Microservices is fundamental to achieving a digital-first strategy

- A modern issuing platform needs to be adaptable and flexible but also scale without impacting performance; this has led to a modular microservices-led architecture becoming the norm.
- Cloud-enabled microservices architecture allows banks to "'pick and mix" their preferred digital capabilities. The flexibility of this approach enables banks to customise the platform prior to deployment and support ongoing innovation.
- A microservices approach also gives the bank the opportunity to evaluate engagement levels of specific customer segments before committing to a full product release.

58% of issuers believe microservices is integral to their digital strategy with just 8% of issuers believing it to be unimportant to their digital plans.

Importance of microservices to digital strategy



SOURCE: OMDIA

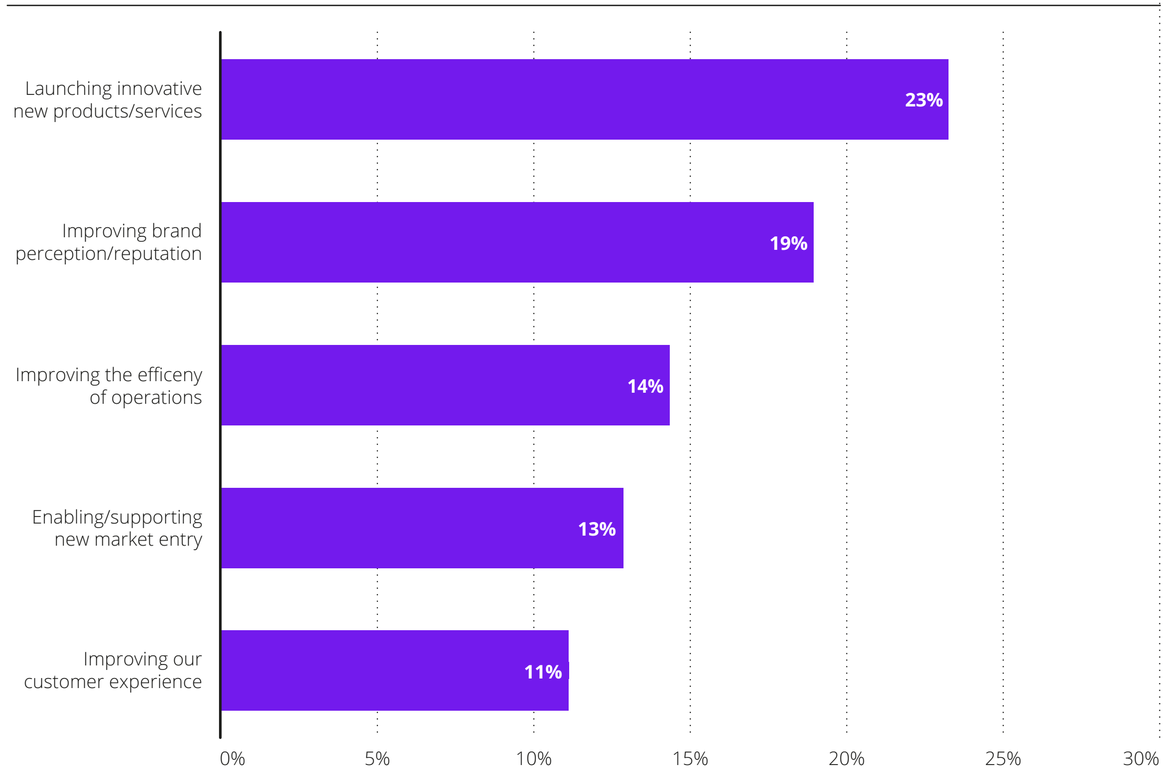
Go-to-market strategy accelerated by leveraging cloud

The top driver for investment in payment infrastructure is to more rapidly deploy innovative new products/services with the cloud being a significant enabler. This is particularly true for larger institutions with 35% of tier 1 issuers attributing faster go-to-market strategies as the top priority

Improving efficiency of operations is also a leading factor driving innovation in payment infrastructure and by adopting cloud technology, issuers would naturally consolidate and centralise processing platforms.

Another advantage of cloud technology is faster onboarding, which digital savvy banks benefitted from during the pandemic as were able to acquire new customers much more quickly. For existing customers, issuers can leverage the cloud to release features to specific user groups for testing as opposed to a mass roll-out to all customers which was traditionally the approach for issuer banks running off mainframe technology.

Top priorities for investment in payment infrastructure

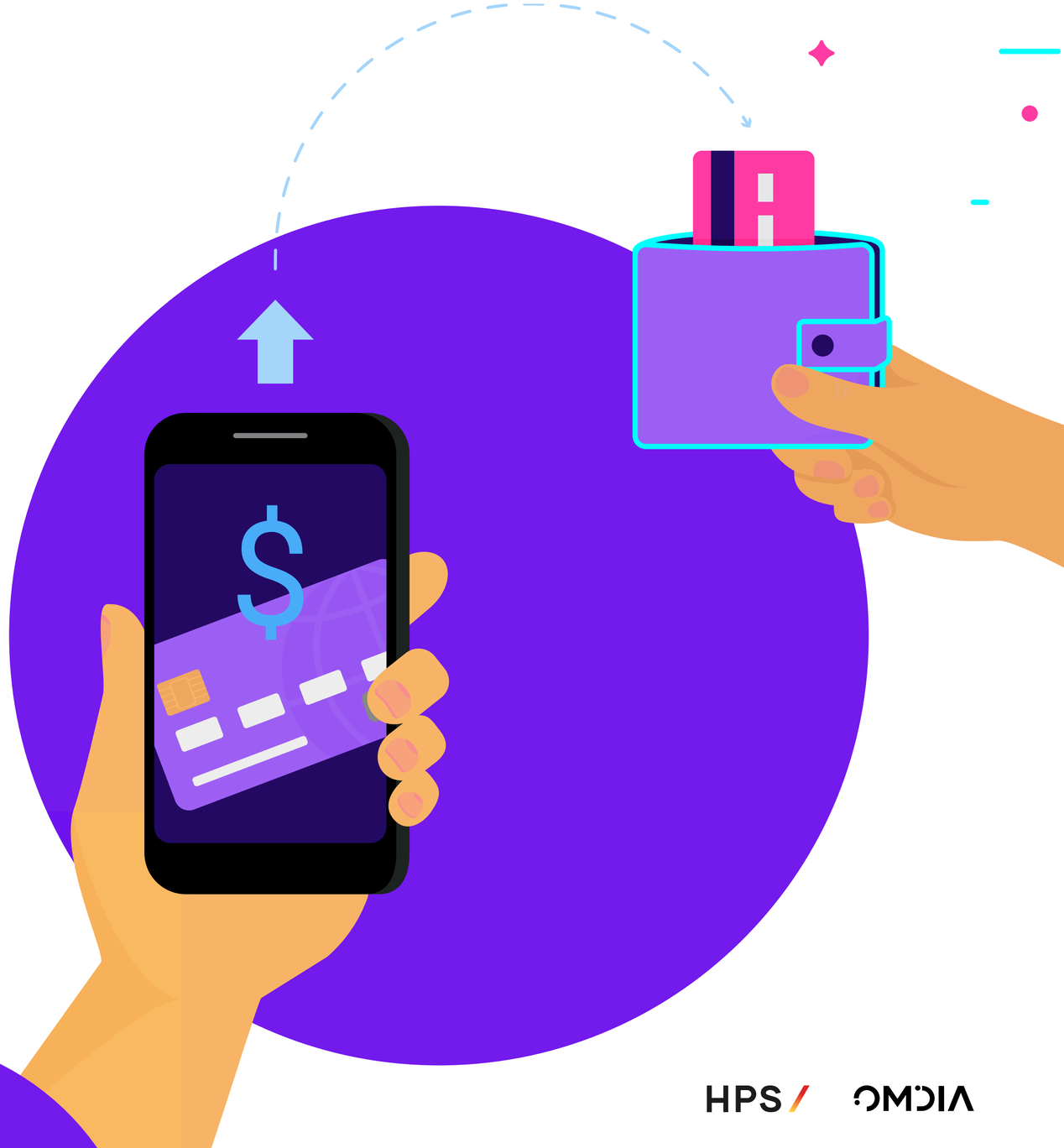


SOURCE: OMDIA

Outlook

Digital payments will continue to take share from plastic cards with digital wallets increasingly being adopted thanks to the convenience of making payments as issuers, merchants and consumers alike embrace and adapt to a cardless world at both e-commerce and point-of-sale checkouts. New payment methods such as buy now, pay later, account-to-account and QR payments are becoming mainstream as well as the emergence of cryptocurrencies and central bank digital currencies which requires issuers to quickly pivot and accommodate alternative ways of paying.

Digital expectations will continue to change at a rapid rate and a modern issuing platform is essential to provide the capability to easily build new products/services and rapidly deploy at scale to ensure issuers can keep pace with consumers' demands. To support scalability, deployment by cloud is increasingly in demand because it enables issuers to manage their infrastructure costs more efficiently than with on-premises deployment, and future-proof their services.



Appendix

About

HPS

- Specialist provider of retail payments software to over 400 financial institutions in 90+ countries.
- Monoline technology company: HPS is focused in one business – payments, and in one product – PowerCARD.
- HPS' mission is to help banks to reduce cost & modernise their retail payments ecosystems.
- Providing a single payments platform that covers the full value chain in a single software application.
- 25-years track history of helping clients grow revenues through innovation and first-to-market initiatives.

To know more about HPS, please contact sales@hps-worldwide.com or visit:

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Omdia

Omdia is a global technology research powerhouse, established following the merger of the research division of Informa Tech (Ovum, Heavy Reading, and Tractica) and the acquired IHS Markit technology research portfolio*.

We combine the expertise of more than 400 analysts across the entire technology spectrum, covering 150 markets. We publish over 3,000 research reports annually, reaching more than 14,000 subscribers, and cover thousands of technology, media, and telecommunications companies.

Our exhaustive intelligence and deep technology expertise enable us to uncover actionable insights that help our customers connect the dots in today's constantly evolving technology environment and empower them to improve their businesses – today and tomorrow.

*The majority of IHS Markit technology research products and solutions were acquired by Informa in August 2019 and are now part of Omdia.

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