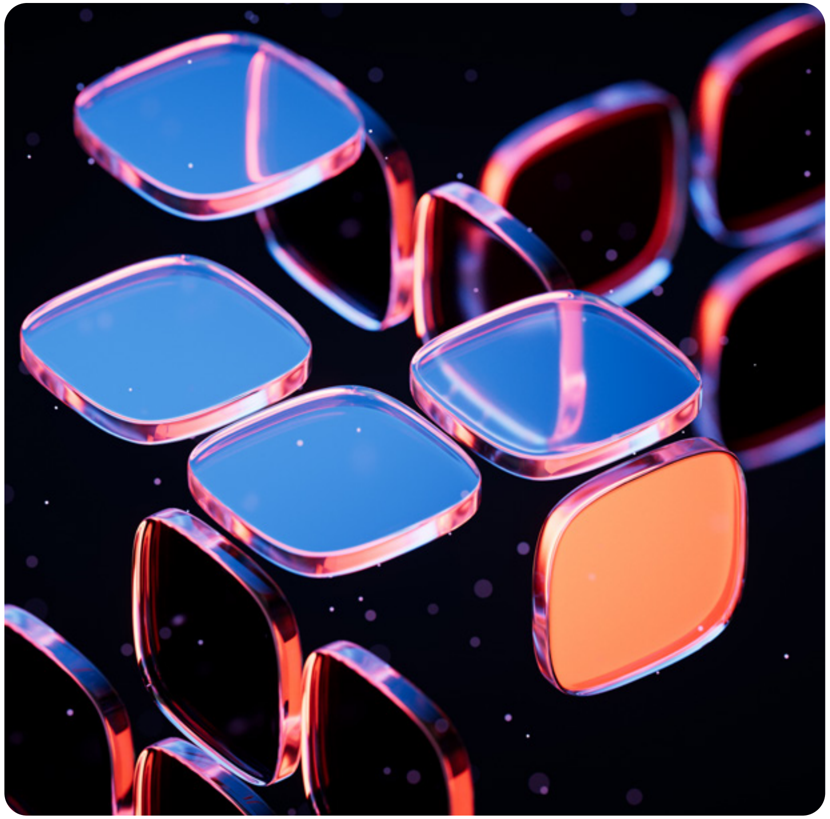
COMPASS PLUS TECHNOLOGIES

The processor conundrum: How much flexibility do you really need?

Introduction

When a financial institution (FI), whether greenfield or established, decides to outsource part or all of its payments processing, two main options initially present themselves: Service-focused (SaaS) or platform-focused (PaaS).



Although processors do offer a wider range of deployment and service models to FIs, most propositions ultimately lean towards one of these two philosophies: fit into the processor's existing offering or take on the responsibility of administering their own platform in a hosted environment.

The problem isn't choosing between SaaS and PaaS.
It's understanding the balance between the numerous advantages of a well-thought-out pre-packaged service and being boxed in; and the balance between the flexibility to create competitive advantage, and the flexibility to avoid unwanted complexity.

The cornerstones of flexibility: Control, choice and changeability

Flexibility is heralded as the only way to create the differentiating products and services that will help to grow an FIs business. But flexibility is not a single attribute, and more flexibility is not necessarily better.

A processor can offer an FI extensive control over its products, but limit the technologies and partners it can use. It can offer a broad ecosystem of choices, but make changing or replacing those components difficult. It can provide powerful configuration capabilities, but place so much complexity in the hands of the FI that flexibility becomes a burden rather than an advantage.

A forward-thinking FI therefore needs to look beyond whether a processor is simply described as “flexible”. It needs to understand where flexibility exists, where it doesn’t, and what the FI has to take on in return for it.

Ultimately, true flexibility comes down to three interconnected but distinctly different things:
control, choice and changeability.

Control:

An FIs ability to shape their own products and customer experiences rather than having those decisions dictated by the processors’ service packages or platform limitations

Choice:

The freedom for FIs to select the processors’ services that best support their strategy, and any additional third-party partners without being unnecessarily locked into a closed ecosystem

Changeability:

The ability to turn the control and choice into action; to adapt products, introduce new capabilities, integrate with new partners and ultimately respond to new opportunities

The two ends of the flexibility spectrum

Standardised SaaS sits at the "use the service as designed" end of the spectrum, whereby the FI consumes a pre-packaged off-the-shelf service. And for many FIs, that's exactly what they need. SaaS offers faster implementation, lower complexity and lower initial costs while providing access to a robust set of proven services that are already operating successfully at scale. For an FI whose requirements are well aligned with the processor's proposition, this can be a significant advantage.

The challenge comes when the FI's strategy starts to move beyond what the service was designed to do. For example, the FI may want to launch a new proposition that sits outside the processor's standard offering; enter a market the processor does not currently support; adopt new technologies by integrating with a new third-party provider; or change its service model altogether.

If these capabilities fall outside the processor's remit, the FI may find itself dependent on the processor's roadmap and priorities - waiting in long development queues, paying the premium for bespoke services, or, in some cases, having to migrate part or all of its business to another processor.

At the other end of the spectrum, sits PaaS. PaaS is particularly alluring to FIs that want the freedom to control their payments application and shape their own product strategy without the burden of building and maintaining the underlying infrastructure. But this level of flexibility comes with big trade-offs: the greater the control, the greater the responsibility for managing the platform, integrations, development and change. What the FI gains in freedom, it may also take on in cost, complexity and operational responsibility, not to mention ensuring they have the right expertise and team on hand to manage it effectively.

But how much of that control does the FI actually need?

Contrary to popular belief, maximum flexibility doesn't equate to maximum value. Flexibility without boundaries can quickly transition into complexity, and this can be resource-heavy and expensive.

This creates a fundamental question:

Can your processor give you the flexibility to differentiate your business without transferring the complexity of running a payments platform back to you?

The rise of right-sized flexibility

As FIs face increasing pressure to move faster while maintaining the ability to differentiate, the traditional choice between standardisation and control is becoming less binary. This is creating demand for customisable SaaS, or SaaS+, as a form of right-sized flexibility: giving FIs greater freedom to shape their propositions without taking on the full complexity of managing the underlying platform.

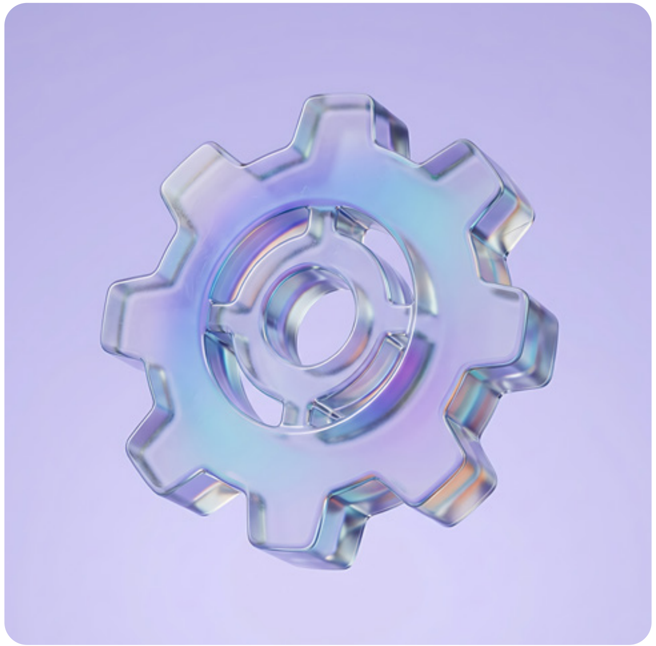
Newer, more flexible platform architectures enable modern processors to move beyond a one-size-fits-all service model, allowing greater configuration, integration and choice while continuing to manage the underlying infrastructure and operational complexity. The result is a model that aims to give FIs more control over what differentiates their business, without requiring them to take control of everything.

How an FI runs its business doesn't have to be a compromise between the three cornerstones, but instead a symbiotic balance of the three directly addressing the FIs current and future requirements.

Right-sized flexibility means having the ability to control what differentiates an FI's business, without having to operate the complexity underneath. A modern, API-first platform can provide the foundation for this, providing FIs with the ability to configure products, rules and workflows, enabling integration with their chosen partners and allowing them to shape their own customer experiences, while leaving the underlying infrastructure, maintenance, compliance and operational complexity with the processor.

Customisable SaaS combines the operational simplicity and scalability of SaaS with greater control, choice and changeability at the business layer. Rather than choosing between convenience and differentiation, FIs can outsource their payments processing while retaining the flexibility to make the proposition their own.

For an FI considering standardised SaaS, this can provide valuable protection against future constraints. The FI does not need to predict every product, market, technology or partnership it may need over the next decade simply to make the right processing decision today.



For an FI considering PaaS, the question is different. If the primary objective is product freedom, ecosystem choice and strategic agility, does the FI really need to take responsibility for operating more of the underlying platform to achieve this? Depending on the FIs strategic vision, capability and resources, this may or may not be the case, but it's certainly worth considering.

Customisable SaaS does not eliminate boundaries. There will always be a point at which configuration ends and development begins. The difference is where that boundary sits and whether it gives the FI enough control to create the competitive advantage their strategy demands.

Ultimately, the value of customisable SaaS is not that it offers more flexibility. It is that it aims to put flexibility in the hands of the FI where it creates value, and keeps it with the processor where it could create complexity.

The processing spectrum

	FI control	FI flexibility	FI responsibility	Potential complexity
Standardised SaaS	Low	Low	Low	Low
Customisable SaaS	Medium	Medium	Medium	Medium
PaaS / managed platform	High	High	High	High
Software / self-managed platform	Very high	Very high	Very high	Very high

The processor flexibility test

Flexibility is easy to promise and harder to prove. Before committing to a processing partner, FIs need to look beyond today's requirements and understand what happens when they actually need to exercise that flexibility.

The following questions can help expose where that flexibility really lies:

Create:

How much freedom will an FI have to define products, pricing, fees, limits, rules and customer propositions?

Operate:

What can their teams configure themselves, what requires processor involvement and what requires development?

Scale:

Will technology, commercial terms, operations and resource requirements scale with the business?

Integrate:

How easily can the FI integrate with or replace providers as their strategy and ecosystem evolve?

Expand:

Can the processor adapt to new countries, regulations, payment methods, schemes and local partners?

Adapt:

If an FIs strategy changes, can the processor facilitate this change? Are they buying a service that fits what they need today, or a processing foundation capable of supporting what comes next?

Evolve:

If an FI wants to change deployment model, or even move part or all of the business in-house, can the processor support these changes?

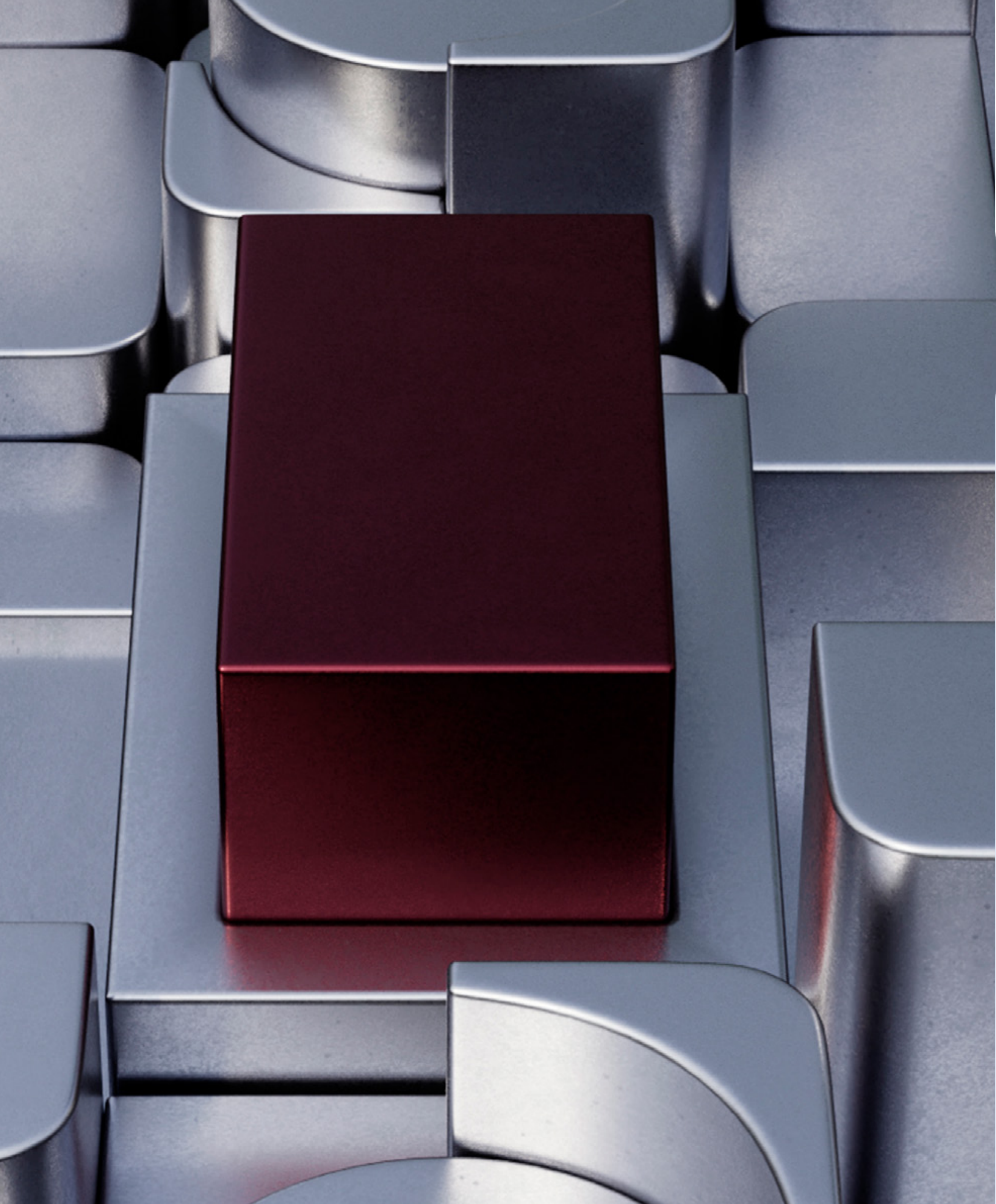
Finding the right balance

Choosing a processor isn't simply a technology or outsourcing decision. An FI is choosing a partner that will sit at the heart of its payments operating model for the next 5-15 years as the processor will influence how easily the FI can launch, expand and evolve. If its capabilities eventually fall short, finding an alternative is rarely simple. Migrating critical issuing and acquiring operations to another processor can be costly, complex and disruptive, making the flexibility of the original decision all the more important.

The right processor isn't necessarily the one with the most functionality or flexibility. It's the one that gives the FI the freedom to pursue its strategy without taking on unnecessary complexity.

Because no FI can predict every product, market or opportunity it may pursue, future-proofing isn't about getting every requirement right today. It's about retaining the ability to change direction tomorrow.

When choosing a processor be sure to consider if it will enable your strategy - or will it stand in your way?



COMPASS PLUS
TECHNOLOGIES

Compass Plus Technologies

enquiries@compassplustechnologies.com

compassplustechnologies.com