White paper

COMPASS PLUS TECHNOLOGIES

Optimising payment platforms for profitability & commercial success

Enabling customisation to boost performance, accommodate change, & retain competitive advantage

Executive summary

Obvious fiscal and operational pressures aside, the underlying challenge facing financial institutions (FIs) is serving today's mobile, socially oriented, security conscious and loyalty reluctant customers in a marketplace which is increasingly dynamic, regulated and unpredictable.

In addition, players from outside the traditional financial services space are disrupting existing business models and offering customers new and compelling ways to manage their money.

This paper examines the integral role that payments will play in this new landscape; discussing its pivotal function in building trust and loyalty to differentiate and gain a competitive advantage. It also explores how payment systems are uniquely placed to drive new revenue-based services: and how their reengineering and customisation can unlock new profitability through improved efficiency, increased performance and optimisation of resources.

However, many financial institutions are currently trapped by legacy systems and 'islands' of in-house development. How can organisations, restricted by inherently siloed systems and proprietary software, take payments to this new level? How can FIs customise their platforms quickly, easily and cost-effectively to unlock the potential opportunities that new market dynamics offer?

In this paper, Compass Plus considers these challenges and looks at the delivery models available to forward thinking financial institutions, including in-house, proprietary and Open Payment Development Platforms, examining their merits as a means of successfully customising existing payment platforms.

The paper proposes that it is not simply a question of 'build or buy' but how best to harness both internal and external resources; making them agile and more flexible to ensure they can deliver the creative yet solid commercial environment that goes beyond customisation.

Market overview

Traditional financial institutions are being challenged on all fronts by an increasingly dynamic and unpredictable market. Many factors have combined to create a highly pressurised and volatile landscape that makes the 21st century market dramatically different from anything that has come before. There are now many new complex and interconnected factors outside a financial organisation's control which significantly impact its day to day operations, commercial viability and competitive success. These include:

- **Recession & fiscal pressures**
  Reduced margins, loss of profit and shrinking revenue - across retail and wholesale banking, card issuing and acquiring, and merchant business - is driving the need to rationalise, improve performance and consolidate operations while creating new revenue streams and achieving better profitability.

- **Increased security requirements**
  Greater legislation and regulation from local and international bodies - SEPA, PCI, and card issuer mandates – combine to create an environment of constant change which requires FI's to make significant investment just to stay compliant.

- **Competition & disruptive forces**
  New players continue to carve up the market as peer-to-peer payment providers, mobile operators, retail institutions and global digital and social media companies all fight to get a slice of consumers' brick and mortar and virtual payments.

- **Consumer demands**
  From smart phones and touch screens to social media and digital content, technology is changing customer behaviour, perception and expectation. With loyalty harder to maintain, FIs are experiencing an increase in churn that cannot be countered by security and trust alone – it requires greater customer contact; demonstration of relevance to customers and their lifestyles; and value rich offerings to safeguard revenue and remain competitive.

With the continued reliance on antiquated legacy systems and the subsequent high-profile system crashes, it is no wonder that key industry analyst firms are urging FIs to invest in modernising their payments platforms in order to safe-guard their business.

Undoubtedly the time is right to explore the best way to optimise this investment to help, FIs achieve the new levels of commercial agility, backed by nimble operations that will allow them to respond to changing customer and market requirements. How businesses shape their processes and architecture now, will play a crucial role in their transformation for long term success.

The role of payments

Payments is the most basic and pervasive financial service. It is central to all businesses - cards, retail and corporate - and across all FI product and service offerings.

On this basis alone, payments represent a significant prize to those who own them. And the owners are changing. Take the growing prevalence of telecoms operators as the mobile payment market increases in size, or the younger, more agile, emerging FinTech companies, offering online only banks and other such ventures. There have never been so many players angling to gain revenues from a share of the payments pie.

But the power of payments lies not just in its income potential; trends show that payments is fast becoming a strategic factor in controlling cost, reducing risk and meeting customers' evolving needs.

In a highly competitive market with many new entrants, establishing and maintaining trust is central to building loyalty and securing customer relationships. Consumers are more likely to trust those FIs who do the basics well - that means secure, reliable and consistently available payments and processes.

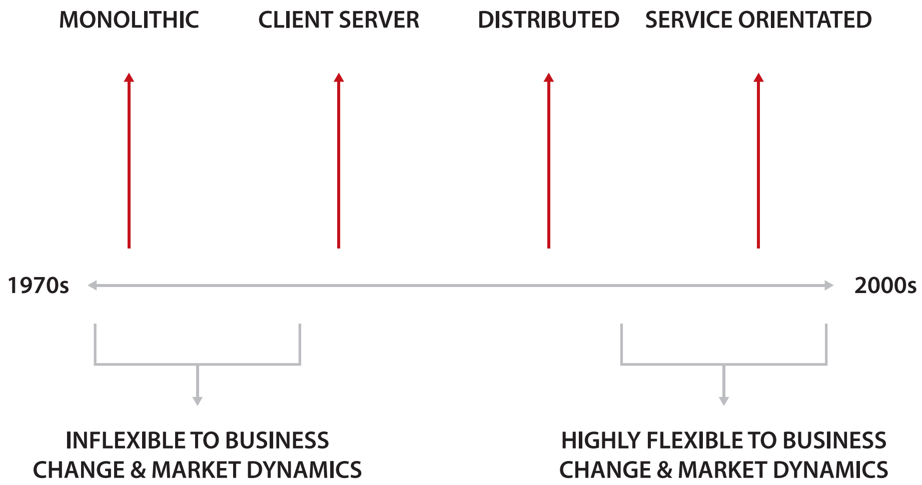
As they continue to move towards more customer-focused service delivery, payments will also be vital for FIs seeking to understand the consumer and identify their needs through the use of modern analytics. With the aid of intelligent tools, payments can provide the customer data and contact points to fuel value-added service delivery and boost revenue.

Many of today's current payment platforms are built on old legacy systems, leaving them ripe for reengineering to reduce costs and improve performance. Effective payments can impact on commercial performance, competitiveness and future success.

Payment platforms need to tie products with modern lifestyle and commercial requirements to ensure FIs stay relevant. Ultimately, FIs need to get payments right to survive as the market continues to evolve and competition grows.

Payment platform evolution

The software and system architectures available today have evolved considerably from what was available in the 1970's, see However, to deliver to this new market brief, payment platforms must continue to evolve further.



Current development is often hindered by in-house piece-meal legacy systems and siloed operational approaches.

There is a real need to reengineer payment platforms for profitability by reducing current IT complexity and data process redundancy; simplifying workflow and avoiding duplication; and speeding the creation and delivery of new market facing services.

According to industry experts, major banks must adapt to sweeping changes in the payments industry in order to reverse revenue and profit declines and chart a course to sustainable growth. This requires increasingly agile and robust centralised payment functions that can respond and deliver to market and regulatory demands in short time frames.

To achieve this, payment platforms must offer a high degree of flexibility to accommodate rapid change, whether it comes from legislation, the business or the market. Customisation, the ability to modify and create new payment parameters quickly and easily, is the key to payments evolution.

By adopting highly-customisable payment platforms FIs can:

- continue to deliver a centralised system across product and service lines aiding transparency, reducing risk and encouraging a single customer view;
- drive operational and service improvements and instigate customer rather than product level pricing and profitability;
- use payments strategically to boost competitiveness, deliver better profitability and help business transformation;
- build new services with third parties more easily; providing payment services to digital content developers, online game providers and social network providers, all of which have business models demanding more flexible payment arrangements.

Development options

Customisation of the payment platform requires technical resources, software and development tools as well as codes that can be readily programmed. It also necessitates integration with core processes and other front and back-end services.

This creates a number of issues in terms of delivery and ownership which is made more complex by the disparate nature of many FI's own internal systems; their understandable reluctance to systemic change; and their over reliance on legacy investments.

There are four main development options for payments: in-house development, external integration providers, proprietary software and open platforms. Examined closely, they all offer both positive and negative contexts for customisation.

In-house development

Advantages: The model is able to accommodate FIs' often complex internal processes to deliver solutions independently for different parts of the business. It provides the resources and opportunities for very specific ongoing development.

Disadvantages: In-house teams are often restricted by the latent inflexibility of their in-house or proprietary legacy systems and toolsets. There is much duplication of effort across the organisation which reduces efficiency and effectiveness. Customisation can be costly and difficult to maintain, particularly in environments with frequently changing interface and messaging transformation requirements. This may threaten the FIs' agility and efficiency. It does not take advantage of readymade re-usable and extensive libraries that existing solution vendors offer, which will match at least most of the requirements as a rule.

Integration providers

Advantages: Typically these are 'best of breed' solutions designed to meet the needs of multiple internal and external transactional flows and are suitable for supporting service-oriented architecture environments. They can be easier to maintain than supporting in-house developed solutions. Integrators often update libraries of common industry connectors and messaging transformations which can positively affect agility.

Disadvantages: Customisation can be costly and presents greater implementation challenges than software solutions delivered as part of an application suite due to the need to integrate them into the legacy environment.

Proprietary application suites

Advantages: Payments application suites often contain their own underlying development layers, which is integrated with the application functionality and contains specialised B2B connectivity functionality. This can reduce cost as well as maintain and speed up implementations.

Disadvantages: Customised application suites can sometimes be highly specific and it may be difficult to extend their support to other applications.

Open Development Payment Platforms

Modern payment platforms such as ODPPs offer FIs the agility to act more efficiently in response to market opportunities and changing consumer expectations. ODPPs provide the tools to launch new products and services quickly utilising already existing components, instead of the exhaustive task of replacing separate parts on legacy systems. They run on databases and work as a sum of all parts, unlike fragmented systems that can't access data or easily integrate with each other.

Advantages: The benefits of ODPPs for banks and FIs are faster time-to-market with new payment services and the ability to provide more flexible payment services. ODPPs accelerate the pace of innovation and ensure that services are compliant with industry regulations and standards.

Disadvantages: The challenges of ODPPs lie around having the correct level of support. FIs either need larger development teams and extensive training in order to build and deploy to products and services on-the-fly, or they need a vendor capable of supporting the development of their product roadmaps.

Accelerating customisation

Utilising SOA

To provide 24/7/365 availability and the faster introduction of more flexible and innovative new services, many FIs are turning to Service Oriented Architecture (SOA) to free capacity, maximise resources and streamline payment complexity.

SOA developed solutions provide enhanced configuration flexibility allowing companies to decouple services and build a component repository that can be 'mixed and matched' depending on client requirements, or brought together to solve ever complex business needs such as high-volume, stand alone payment hubs.

SOA platforms can deliver agility, flexibility, easy integration and faster service development and deployment as well as easier access to report and status information. As a result, SOA platforms can protect investment while providing retailers, banks, card issuers and merchant acquirers with clear, lower cost pathways for future service evolution.

A flexible approach

When designing a payment platform, the first decision to make is determining where to leverage standard components throughout the system.

Traditionally, in-house service development can take much longer than when using pre-designed software components as significant R&D time and effort goes into designing the platform before revenue generating services can be introduced. Cost and effort can be saved if such a platform is acquired from the vendor ecosystem, with internal resources applied fully to the development of applications and services.

Well positioned vendor libraries with extensive readily available software can help in-house teams create a vibrant ecosystem that embraces standards-based hardware and high-availability middleware.

This maintains the ability to create bespoke solutions but in a 'plug and play' context. The result is faster time-to-market, reduced resource costs and increased revenue potential, for even the most complex financial applications.

A side benefit of such an approach is that since the platform has already been put together with pre-tested and pre-integrated components, the overall testing and quality assurance effort is also reduced.

Conclusion

It is clear that government regulation, tighter competition, and shifting customer demands are all taking a toll on revenues and profits.

All around is change. FIs will have to follow suit - or suffer relegation. Payments and services must evolve in order for FIs to stay secure, relevant and profitable.

Holding on to legacy systems and unyielding, ineffective and inflexible development models will hold the industry back. Confining IT development exclusively to in-house teams is detrimental to technological and, ultimately, business performance.

By restricting access to external software, FIs risk wasting their own IT resources 'reinventing the wheel' to introduce new services quickly and efficiently according to industry standards. Working autonomously slows time-to-market and limits competitiveness.

This paper concludes that it is time to shake off the old 'in-house OR proprietary' approach that has long dampened innovation within Europe's financial institutions.
With open development frameworks the two can, and should, work in close harmony.

Using SOA platforms, in-house teams can choose to exploit well designed, pre-tested software and toolkits from proven payment experts. The cost associated with external software licenses can be offset against productivity savings, reduced time to market and faster revenue generation. Third party software components are also designed to comply with the latest mandates and standards, shifting the responsibility for ongoing updates away from the FI to the vendor.

All of this frees in-house IT functions to be more effective and creative; removing the burden of maintaining the payment platform so they can concentrate on evolving better cross-business solutions and market-winning services.

As many legacy systems reach end of life, there is now ample opportunity to reengineer payments for greater profitability.

The ability to build richer, deeper relationships with payments solution providers, will become key attributes of successful 21st Century banks and payment processors.

With dedicated IT resource, intrinsic system flexibility and commitment to customise the payment platform, the new collective goal for FIs, and their IT partners, will be: "Encourage innovation today, to safeguard tomorrow."