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CUT THROUGH THE NOISE: 5 KEY CONSIDERATIONS WHEN SELECTING YOUR PAYMENTS PLATFORM

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Finextra | COMPASS PLUS

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Introduction

Identifying and working alongside technology vendors has never been higher on the agenda. A 2020 Lloyds Bank survey found that 88% of senior leaders within financial institutions say that tech investment will be a top strategic priority for the next 12 months, and that 62% plan to increase investment in technology and core systems.

Organisations across the payments industry are facing unparalleled pressure to digitally evolve. For incumbents this is a result of everchanging customer expectations and demand for digital. These factors cause financial institutions (FIs) to look to the crowded market of technology vendors to help future-proof their business.

Vendors trying to differentiate themselves in this crowded market often use convoluted tech-spin to try and attract new clients. This can make it difficult for FIs to identify which vendor, platform or service is best suited to their needs and may end up being led in the wrong direction.

As **Deloitte reports**, Covid-19 has acted as a catalyst for the digitisation of financial institutions, which has only increased the pressure to transform digitally. “In addition to accelerating digital adoption, the crisis has also served as a litmus test for banks’ digital infrastructure. While institutions that made strategic investments in technology came out stronger, laggards may still be able to leapfrog competitors if they take swift action to accelerate tech modernisation.”

While FIs are facing immense pressure to evolve quickly, selecting the right vendor is a process which should not be rushed into. Financial institutions must be cautious when considering potential technology vendors by cutting through marketing vernacular to build a clear understanding of the platform’s capabilities.

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2020 Lloyds Bank survey

This impact study sets out the key considerations FIs must make to effectively deploy their strategy. From avoiding outdated assumptions, outlining clear objectives, steering clear of industry buzzwords, to asking the right questions, these fundamental tools will only assist financial organisations in their journey to enhance or transform their digital offering.

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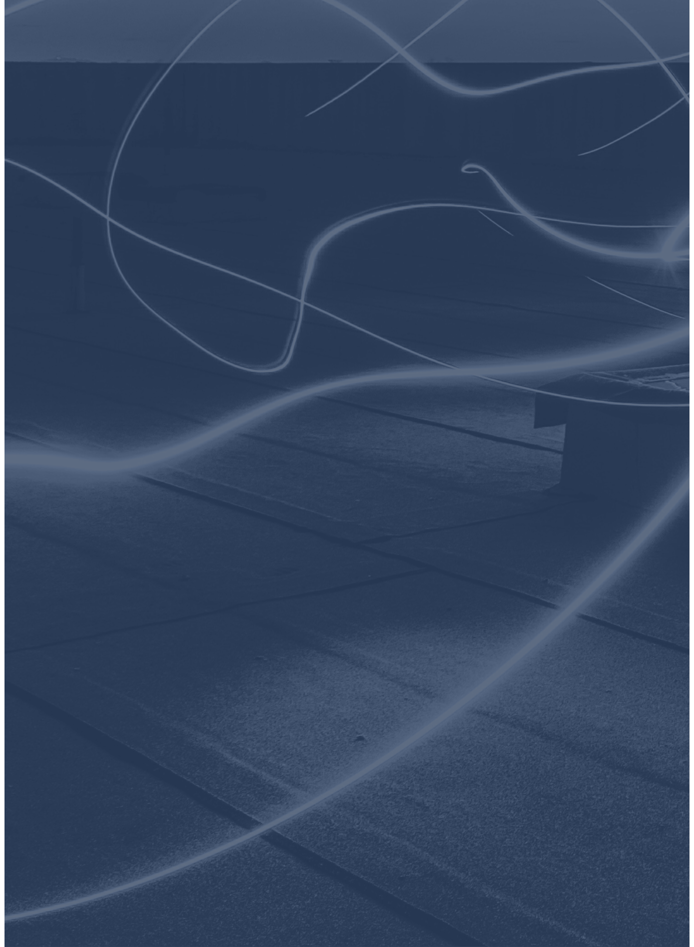

Break down industry assumptions

Traditionally, a combination of five standard considerations have driven financial organisations' decisions toward deploying a new platform or tech solution. These include capability to differentiate, time to market, vendor independence, cost, and the strength of the FI's own technical team.

These factors are particularly important for players across the payments industry as competition is fierce and FIs are acutely aware that as financial services continue to open up, historically secure market-share is being targeted and strong margins are no longer guaranteed. There is much less room for error.

These five pressures have generated three typical models for how the technological solution can be deployed:

1. **To outsource:**
   This model is known for keeping financial organisations highly vendor dependent, with their solution usually deployed on a multi-tenanted system, and FIs having to pay to assert their position in the front of the queue. On top of this, even if an FI can circumvent the queue or break free of multi-tenanted infrastructure with a PaaS model, they are still limited to the technological capabilities of the vendor and the vendor's platform. In the handful of cases where the platform can meet your exact requirements, there is still one final hurdle, it their requirements may not make commercial sense.

2. **To license:**
   FIs also have the option of purchasing a license to increase control (or gain independence from a processor), avoid crowding by other tenants, and improve financial product time to market. These FIs inevitably discover that they are still vendor dependent and are again required to pay in order to assert their position and ensure their voice is heard in the vendor's office. At this stage FIs will still find themselves at the mercy of the vendor's capabilities, priorities, and roadmap.

3. **To build in-house, buy the source code or acquire the company with the know-how:** Organisations may take the leap into building their own system, either from scratch or by bringing the source code in-house from a vendor or through an acquisition. This may provide FIs with the belief that they can more effectively control costs and customise the solution to their business' specific preferences and needs.
   Unfortunately, these financial organisations quickly realise this approach is time consuming with non-business components, such as compliance and system performance, which increase complexity several-fold overnight. Whether you are acquiring, buying the source code and having the vendor support an entirely separate version, or building your own, this approach is extremely costly and a successful deployment is entirely at the mercy of the FI's technical team size, experience, skill and ability to adapt to new challenges.

These models may have served FIs in the past, but today, financial organisations are increasingly dissatisfied with their limitations and demand for a more evolved version of these models is rapidly building. This is underscored in a **2020 Deloitte study**, which states that banks should re-examine the build-buy-outsource/offshore model for technology products to cut costs.

To meet this demand and help FIs accommodate these new models, there are solutions powered by a new breed of payment technology platform that enable FIs to take advantage of a hybrid approach to the three traditional forms of deployment. This ensures that only the valuable and relevant factors from the outsource, license or build/buy approaches are used to build a bespoke model that is customised to the specific needs of the FI.

Recognising that evolved models exist can be difficult as the marketplace is rife with old-world solutions which are marketed as being more technologically advanced than they truly are.

Define and refine to meet your objectives

Organisations must effectively define and identify precisely what they want to achieve with their payments systems. Breaking down the core goals and challenges removes uncertainty and builds a framework within which the project can be deployed.

By way of example, today an FI's business strategy could range from targeting a new segment of their existing market, such as the more digitally-literate Gen Z, to international expansion or even a complete IT overhaul to allow for functionalities unavailable within incumbent legacy systems. However, when selecting a vendor, concentrating only on today's objectives is not viable and an FI should be thinking about whether the vendor fits with their medium to long term strategy.

Financial institutions should prioritise setting out key objectives within a clear roadmap that is not haphazard nor overcomplicated at the early stages. By identifying the FI's fundamental requirements in a manageable way, it will be easier to recognise the underlying drivers needed for delivery.

It can be easy to fall into the trap of designing an unnecessarily complex project early on in, efforts to build what is thought to be a strategy that includes every technological 'bell and whistle.' Unfortunately, such complex efforts can be made in vain if the market has moved on by the time the original vision is launched. Sometimes the best approach is to simply prioritise getting a minimum viable product to market as fast as possible.

Build a mutually beneficial relationship

A recent report by **McKinsey** found that companies can achieve economies of scale and build deeper expertise if they work more closely with vendors.

While an FI must understand what it requires from the vendor it selects, it is also vital to avoid becoming locked into a relationship where one party holds dominance over every decision. As in any healthy partnership, the relationship must be mutually beneficial so that both parties are able to effectively carry out their roles and assist each other throughout and following deployment.

The ideal vendor will have experience across multiple deployment models, generations of payments platforms, and types of products and solutions across different market players, from national payment networks to brand new, quick-to-market, unique neobanks.

The vendor will also have deep understanding of diverse jurisdictions, and crucially, will hold an in-depth knowledge of the evolution of the payments industry. Some vendors which offer both license and processing service models will have a track record of running their own systems in-house, and are therefore able to offer unique and invaluable insights to FIs on their project delivery.

The cumulation of this experience and skill enables vendors to understand quickly and accurately what is achievable in the given context, avoiding the risk of overpromising and underdelivering.

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All too often, a financial institution's objectives will be dictated by its existing technology or legacy systems which can act as a handbrake on an FI's ability to evolve. When choosing a new vendor, an FI must engage with them to build something truly new and unique rather than limiting themselves by replacing like-for-like with minor adjustments. While staying true to the key requirements and objectives, having an open mindset can only be beneficial for the long-term, especially when coupled with the right technology vendor.

CIOs often consider choosing multiple vendors due to the belief that this will help them avoid lock-in and the concern around relying on a single vendor for the entirety of their technological needs. Making a decision on these grounds is problematic.

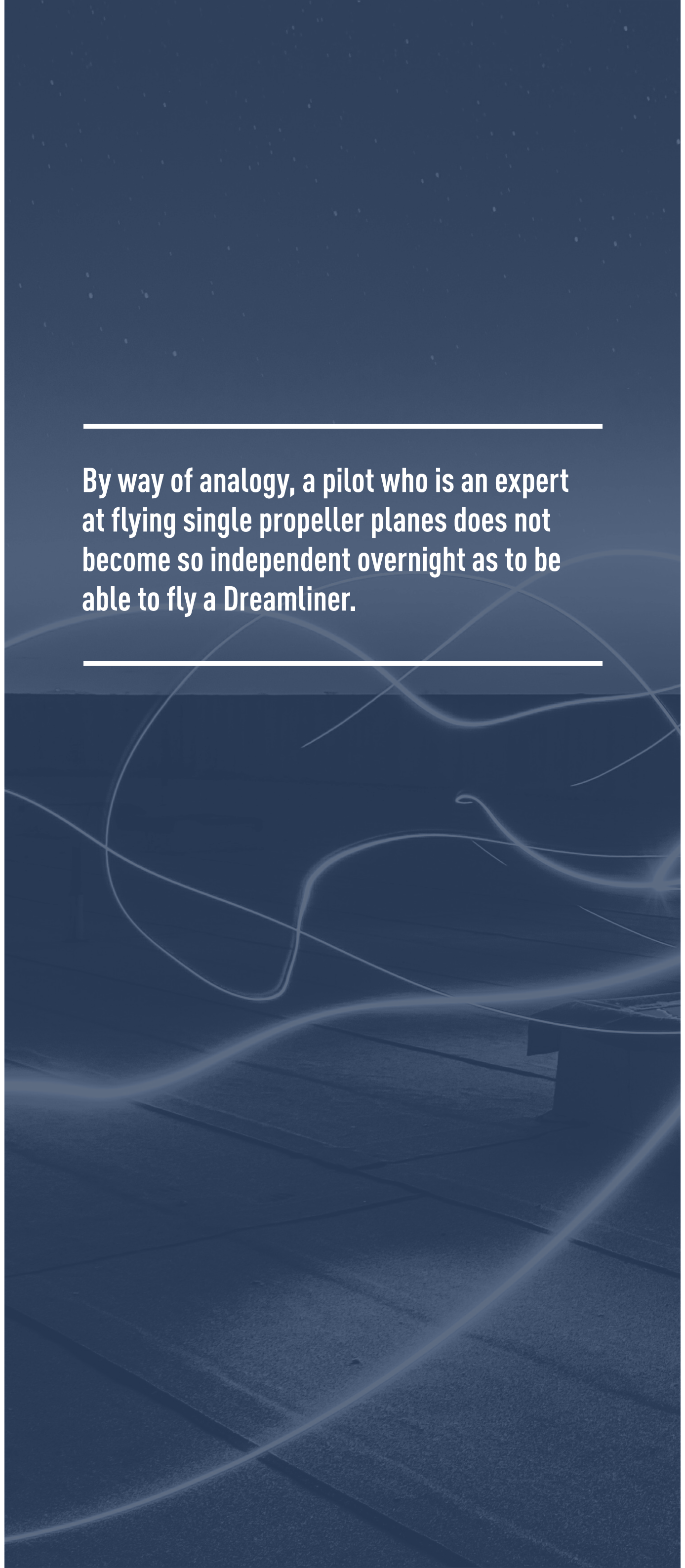
While selecting multiple vendors may be the most appropriate solution for a given FI, this does not remove the risk of vendor lock-in. FIs trying to avoid lock-in with a single vendor may in fact find themselves committed to several ill-suited vendors at additional expense for an extended period of time. CIOs may argue the logic behind selecting multiple vendors is to capitalise on specialised expertise, but it comes with higher costs and increased risk.

Is vendor independence the true objective?

While many financial institutions may believe that true vendor independence, with its ability to customise the system and launch new financial products without vendor involvement is the ideal operating model for their firm, this isn't always the most suitable approach.

By way of analogy, a pilot who is an expert at flying single propeller planes does not become so independent overnight as to be able to fly a Dreamliner. Though many processes are automated or guided, the pilot must still know how to manoeuvre it, land it, and troubleshoot the plane in order to keep everything operational – especially in case of emergencies. It takes ample skill and training. Before demanding vendor independence, an FI must ensure they have the required in-house skill to operate the vendor independent technology platform.

In addition, vendor independence means something different for every organisation. An FI should aim for scalable vendor independence that is delivered in the right quantities at the right time. In this way, the FI will never find themselves in the pilot seat without the tools and support to land the plane smoothly.



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Don’t be fooled by buzzwords

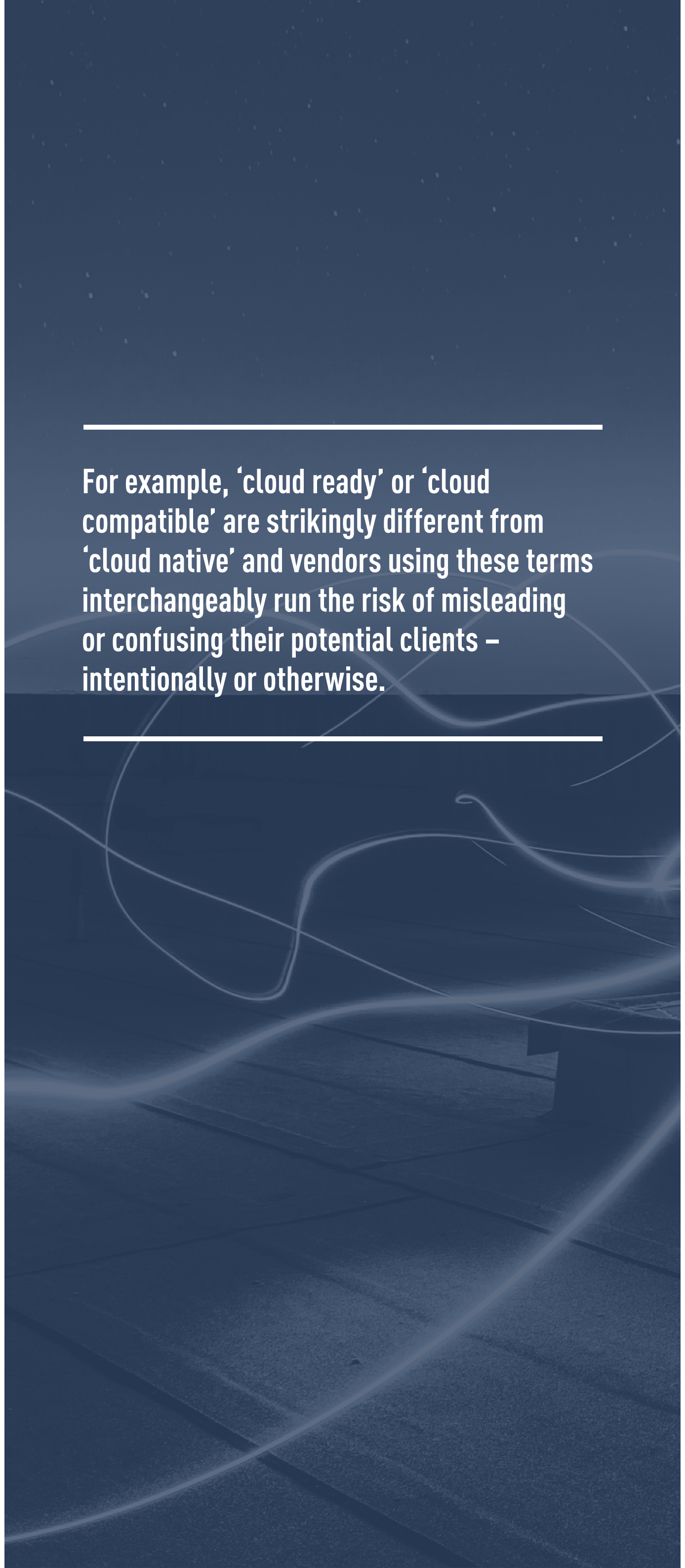
As the needs and expectations of financial institutions become more sophisticated, catering to this demanding market presents a challenge for vendors. Vendors may attempt to circumvent their outdated or narrow offering by attempting to repackage their software solutions using buzzwords in order to appear more advanced and relevant, or able to provide a greater range of services than may be the case.

What chance do financial organisations have of truly understanding the solutions available to them if they are bombarded with inappropriate and misplaced industry jargon?

For example, ‘cloud ready’ or ‘cloud compatible’ are strikingly different from ‘cloud native’ and vendors using these terms interchangeably run the risk of misleading or confusing their potential clients – intentionally or otherwise. A system developed in the 1990s simply cannot be evolved to be considered ‘cloud native,’ as its core architecture would need replacement or rebuilding in order to meet this definition.

Simply put, cloud native functionality means that the platform has been originally designed and built using cloud principles, follows a modern architecture and provides for both extreme scalability and parallel running at the very least. This is not to be confused with ‘cloud ready’ or ‘cloud compatible’ which don’t take full advantage of the benefits cloud can offer.

Another example of a mis-used industry buzzword would be API. Not all APIs are created equal either. For everything to work as it should, it becomes critical to have fully functional, extensive, intuitive, well-structured, and documented APIs that are built to last to support modern standards and technologies for integration.



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While Bank Director's 2020 **Technology Survey** found that 54% of banks rely on their core technology provider for APIs, simply having APIs is not sufficient. Robust, effective APIs are not something which can be bolted-on, they must be embedded into the DNA of any system. By default, this means anything built before 2000 will have APIs which, given their age and limited capability, render many unfit-for-purpose.

Though these are just two examples among many, the issue represents a wider trend of software providers promoting trending tech terms to pique unwitting FIs' interest.

Recognising what is marketing nuance and what is an accurate description of technology solutions behind the industry buzzwords ensures that FIs will be better positioned to identify the most correct solutions for their needs. It also prevents investment of limited budget resource into inappropriate solutions. If a vendor claims to rapidly deliver cutting edge technology, verify their claims.

54%

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Bank Director's 2020 Technology Survey

Conclusion

When a financial institution is faced with the prospect of working with a new vendor, there are not only internal pressures which must be managed but a multitude of obstacles to overcome when navigating the saturated technology market. An abundance of choice compiled with complex and often mis-used tech buzzwords makes the process highly challenging, and it is therefore essential that FIs have a clear understanding of their needs when selecting a vendor.

While there is no fool-proof method for selecting the perfect technology vendor, adopting the considerations within this paper will assist financial organisations to refine their fundamental objectives and requirements and achieve deeper understanding of their business needs. Further, by building out strong relationships with their vendor, FIs will be positioned to more accurately recognise the software solutions that their strategy requires and will likely ensure deployment success.

About

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