



THE FUTURE OF
FINANCE IS **OPEN**

The future of Payments is cloud: Are you ready?



Foreword



By Oren Marmur, SVP, General Manager Payments, Finastra

The public cloud has been widely adopted across various industries and has become a vital pillar for IT systems of modern companies. While financial institutions have also migrated substantial workloads to the cloud, the industry is far from full adoption for all core workloads. Until recently, public cloud was still not considered suitable to meet the performance, security, data governance and regulation requirements of financial institutions' mission-critical applications such as Payment processing systems. However, we can now see there is a clear shift to cloud.

This report provides an independent perspective on the current state of payment processing deployment on the cloud and looks at the reasons driving this accelerated adoption.

While financial institutions historically viewed security as an obstacle to cloud adoption, now they see data and IT protection as one of the strongest reasons for deploying mission-critical applications such as Payment processing on hyperscale public cloud. Banks also harness the cloud for achieving regulatory compliance, enhancing their fraud detection, transaction monitoring capabilities, and overall customer experience.

According to a recent Celent report*, the year 2022 will see corporate banks push more of their workloads into public cloud infrastructure, with 68% of the market planning to increase its activity. This reflects a growing comfort in the use of public cloud across the industry.

While the advantages of using public cloud are clear: elasticity, scalability, agility, reliability, resource optimization, and automation, it also introduces new challenges. In this regard, the following report highlights why banks need to look beyond costs to ensure they select the right partner for running their payments processing on the cloud. Payments processing on the cloud combined with the right managed services partner can deliver unprecedented benefits including scale, operational and cost efficiencies, and agility.

Moreover, when adopting a payments hub as a service from a leading provider, financial institutions, banks, and credit unions, of all sizes and shapes gain access to comprehensive functionality and ongoing regulatory conformity without additional costs and resources. This empowers them to lower Payments processing costs, maximize margins and most significantly reallocate their specialist resources to focus on increasing their financial institution's value proposition.

By adopting a modern, cloud-based payments hub as a service, financial institutions can embrace the new world of payments, drive innovation and focus on service excellence.

Finastra delivers vitally important technology to over 8,600 financial institutions around the world—including 90 of the world's top 100 banks and more than 5,000 small banks and credit unions—and is enabling the future of banking through apps, marketplaces, and an open innovation platform.

As proven leaders in global financial services technology, Finastra is the perfect partner to help modernize your payments on the cloud. Our trusted, open payment solutions and thriving ecosystem of collaborative banks and fintechs are designed with you in mind, helping you innovate, deliver personalized experiences, and create true business value for you and your customers.

* IT Strategy and Priorities in Corporate Banking, 2022: Accelerating Away from the Pandemic, June 2022

CELENT

THE FUTURE OF PAYMENTS IS CLOUD:

Are You Ready?

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08 August 2022

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THE FUTURE AIN'T WHAT IT USED TO BE

Celent has been advocating the benefits of using the cloud for payment processing for many years. Indeed, our research goes back more than a decade, far predating the availability of solutions and even predating many of the growing lists of imperatives for adoption! The latest batch of research came in 2019 amid renewed interest from the industry. But it largely remained just interest. So three years on, and one pandemic later, just where is the industry, and where does it need to be?

If you've seen Celent present on the topic of payments in the last two years, you'll likely have heard the quotation used in the chapter title. It comes from one of the greatest baseball players ever, Yogi Berra. Berra won many titles and many fans over the years with his play. He also won many fans for some of his sayings, some of which were both unintentionally funny yet also oddly profound. The title of this section is just one such example. Coming out of the pandemic, the industry and the world as a whole find themselves in a very different place.

In 2021, during the latter parts of the pandemic, the industry began to talk about the "New Normal." This phrase represented the shift in customer behavior as a result of the pandemic. Traditionally, payment habits have been hard to change; indeed, the changes were sometimes from choice, sometimes because of circumstance. The changes largely happened quickly and have largely remained in place. A good example would be the use of cash. The first change was the sudden shift to e-commerce. With stores and restaurants closed, customers used e-commerce, and ATM withdrawals plummeted overnight. The UK saw a drop of over 60% in just one week after the first lockdown. Across payments, the industry saw shifts in behavior that were at a minimum equivalent to a decade of change (such as the uptake of digital banking) and that simply had no precedent.

Yet that hides other changes. As restrictions eased, physical stores reopened. The first change is that stores actively discouraged or refused to take cash. They believed this was for health reasons, despite their being no evidence that the virus could be transmitted this way and with few stores sanitizing the POS terminals. Yet today, cash is certainly more prevalent, with volumes in the UK having risen to 30% below their pre-pandemic levels.

Rather than one significant change that acted as a single reset, the reality is that it was likely at least three changes. There is a joke in the consulting world that says a consultant only needs two data points to illustrate a trend (and a senior partner only needs one!). How then does the industry predict the future now?

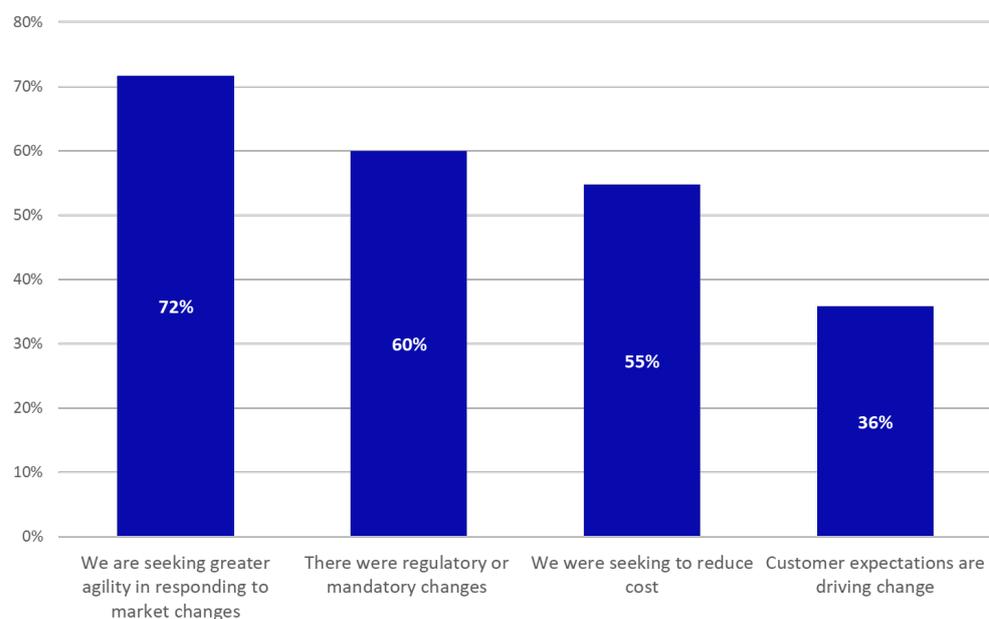
This highlights where (according to Celent) we find ourselves today: The New Unknown.

Traditionally change has been quite dramatic but relatively slow and predictable compared to other industries. Take SEPA or any other industry migration. There is much discussion because payments rely heavily on standards and cooperation. Simply put, the payments industry thought they couldn't move quickly. And even then, many, if not most, changes see a good number of people miss the deadlines.

Recent events, though, show that they can move quickly and indeed have to. The challenge is ... move where? Were the changes a set of individual shifts, like tectonic plates shifting, creating a new landscape? Will there be more? And more importantly, what does the industry already know or believe about the future? Hence the section title and the phrase the New Unknown.

There are some things we do know already. First, the pandemic forced the industry to respond. In May 2021, Celent undertook a global survey of payment professionals. Many of the results from this are published in the report *The State of the Nations for Payments Modernization: The New Normal Is Constant Change* (August 2021). And to be clear, what the industry is seeing is global in nature. There may be regional differences and nuances, but every bank in every region saw the same thing.

Figure 1: Responding to the New Normal Was the Key Driver of IT Spending



Source: Celent, *State of the Nations for Payments Modernization*, 2021

Phase One: Pandemic Triage

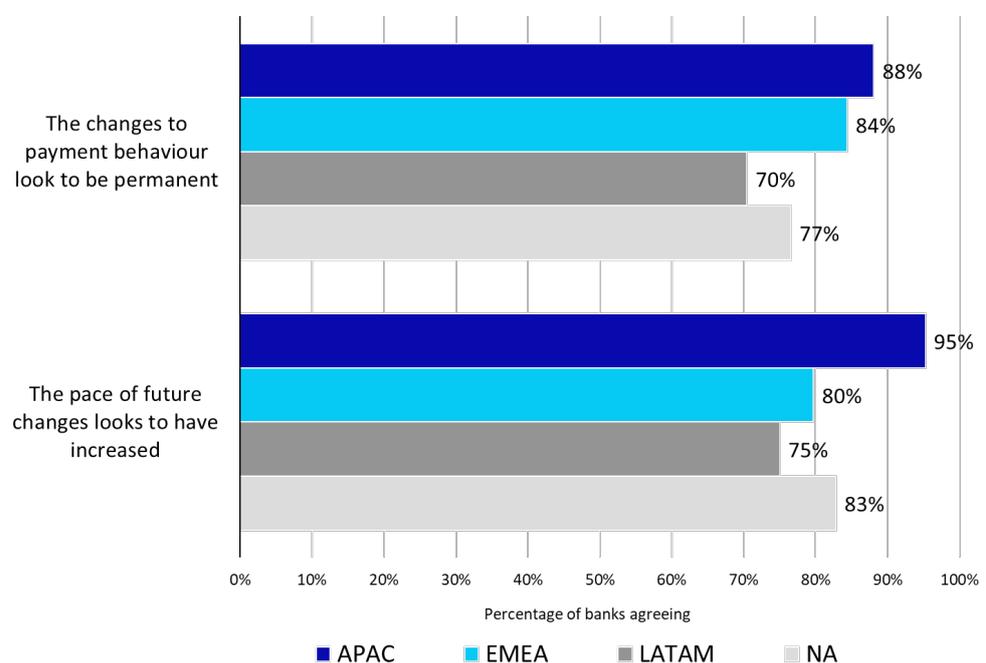
The first phase of the pandemic was triage in many ways. Figure 1 shows the banks initial responses to their IT spending, which can be broadly summarized as keeping the bank going. Other data from the report showed that 68% of banks globally reported that spending was put on hold. At the time of being surveyed, 15 months after the first lockdown for many countries, 51% of banks reported that their spending remained on hold or that while it has returned, priorities had

changed. Indeed, over 20% of banks of all sizes in the US said at that time their budgets *remained* on hold.

Phase Two: The New Normal

Phase Two can be broadly described as reassessing where banks found themselves, having reached a relatively steady state. Here the industry was clearly aligned—as Figure 3 shows, banks think there is no going back. The figures also give an indication of what perhaps is next, with a clear majority who believe the pace looks to have accelerated.

Figure 2: Banks Believe Post-Crisis That the Long-Term Changes to Payment Volumes Will Be Permanent and Will Increase

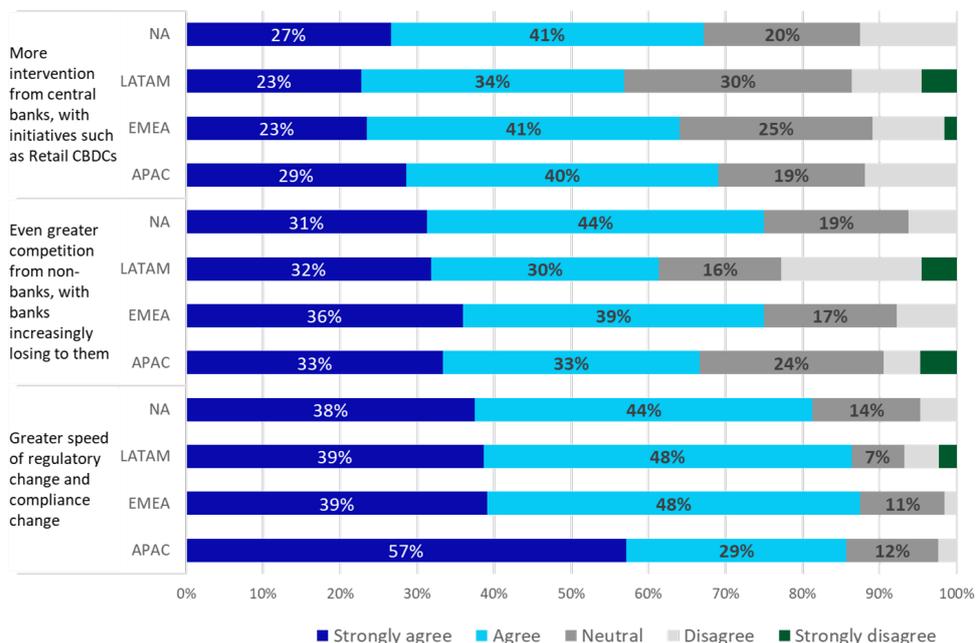


Question: “What do you feel is the long-term impact of the crisis on payment volumes?”

Source: Celent, *State of the Nations for Payments Modernization*, 2021

Figure 3 highlights just three things that they were already worrying about: more enforced change from the central banks in the form of payment initiatives; greater competition from nonbanks; and greater regulation. While there were some regional differences, the picture is broadly global and consistent: not only had the world changed, but it was also getting harder and more complex, with a view there was even more to come.

Figure 3: Banks See the World Getting More Complex



Question: "What do you feel the next five to seven years will bring?"

Source: Celent, *State of the Nations for Payments Modernization*, 2021

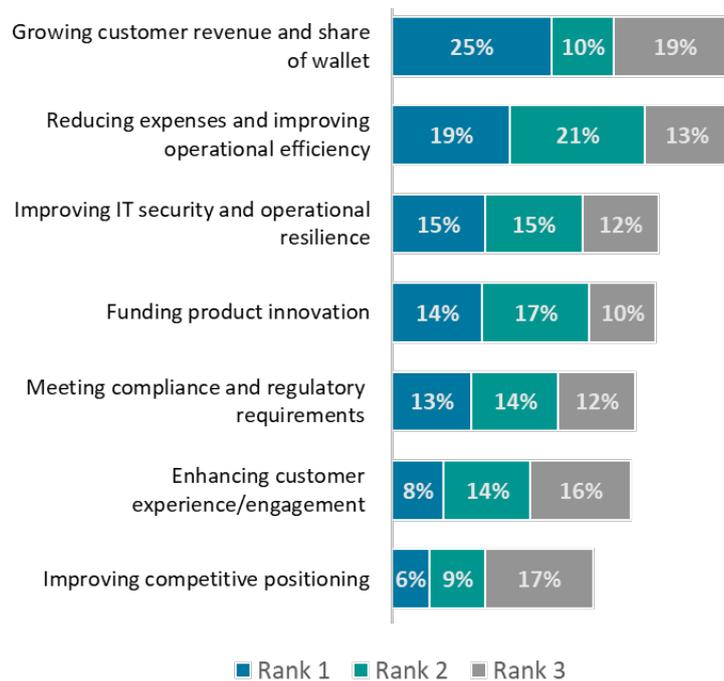
Phase Three: The New Unknown

Celent carries out many surveys, including, a large global survey, which supports Celent’s reports on IT spending forecasts and priorities. The data focuses on type of bank (retail and corporate) but with global and regional views. While not solely about payments, payments are intrinsically linked to banking, and so banking sentiments from the survey are likely seen in payments, both directly and indirectly. Payments touch on almost every system within a bank and are certainly used by every customer and, of course, the bank itself.

The first thing to note from the 2022 survey is that 75% of corporate banks believe that “the threat from fintech and challenger banks is higher than it was a year ago.” Given that Figure 3 is almost a year ago, this is quite a statement. Second, 68% of banks say that “it is more challenging to win and retain customers than it was 12 months ago.” So they perceived the market as being tough already and getting tougher still.

This then explains the numbers shown in Figure 4.

Figure 4: Corporate Banks Top Three IT Spending Priorities in 2022



Question: "What are the top three drivers of your institution's IT spending strategy for 2022?"

Source: Celent Banking IT Strategy Survey 2021/22

Banks, and corporate banks in particular, lost a significant amount of revenue growth during the pandemic. Some estimates suggest they are back to levels from 2017 or 2018. Given many corporates had to shutter for long periods of time, and other industries such as hospitality and tourism were hard hit, it is easy to see why.

Figure 4 then shows that they are trying to regain that lost ground on revenue while at the same time looking at operating costs. Costs are for at least two reasons. First, margins. If competition is greater, it is likely to lead to revenue compression. While revenue is *a* measure, profit is *the* measure. These are potentially conflicting drivers as winning new business while reducing costs is challenging. Having nimbler fintechs challenging for that business while responding to even greater regulation just makes the challenge that much greater.

WHERE ARE BANKS ON THEIR PAYMENTS MODERNIZATION JOURNEYS?

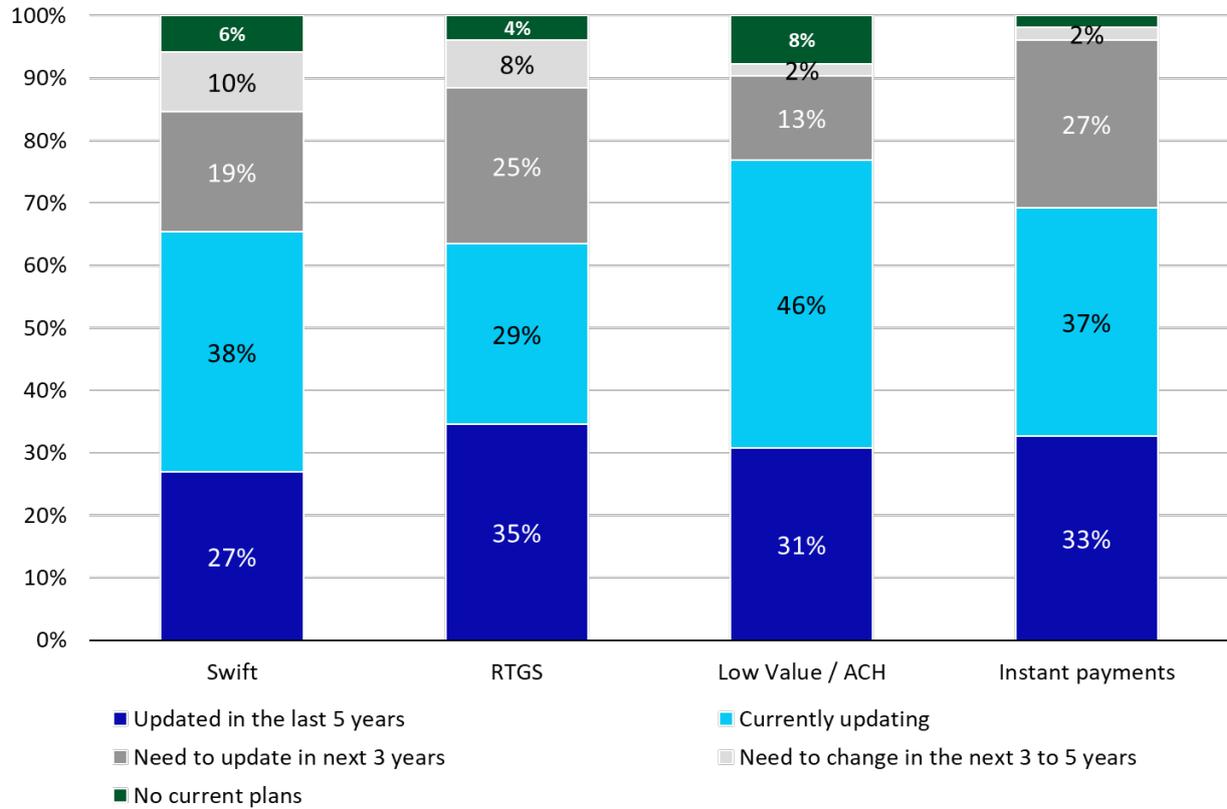
Celent has written about the need for payments transformation for over a decade. During that timeframe, the industry has seen significant *modernization* with the rise and rise of payment services hubs. Yet much of that change is because the banks typically had no choice and were primarily driven by regulation. In addition, it was modernization typically, not full transformation. That's good—but still means there is opportunity to do much more. And that's the conundrum the industry faces: to get that fuller benefit, do they wait for a mandated driver or tackle the market changes now?

In 2010, Celent highlighted that there were four main reasons why a bank changed its payment systems. These remain the same:

- Presence of a “burning platform.”
 - Technology-driven, when, for example, an existing payments engine becomes obsolete or no longer meets the bank's requirements for functionality, capacity, flexibility, etc.
 - Business-driven, when the bank becomes concerned about losing customers and market share, unless it upgrades its offering(s).
 - Regulatory, when new regulations require new capabilities and investments.
- Presence of a large, related program, such as a core banking replacement.

Of these four drivers, the vast majority of programs have been driven, at least in some part, by regulation. The second biggest driver has traditionally been a related program, especially a core banking renewal. In both instances, business cases can be straightforward to create (because if you don't meet the regulation, you will no longer be a bank). And in both cases, there have been plenty of regulation or business cases. Figure 5 from *State of the Nations for Payments Modernization*, highlights, renovation has taken place or is under way in more than 60% of banks for every payment type.

Figure 5: Banks Are Modernizing Their Payment Systems in Every Payment Type



Source: Celent, *State of the Nations for Payments Modernization*, 2021

At first glance then, the industry looks to be moving rapidly in the right direction. Yet this obfuscates a number of serious points.

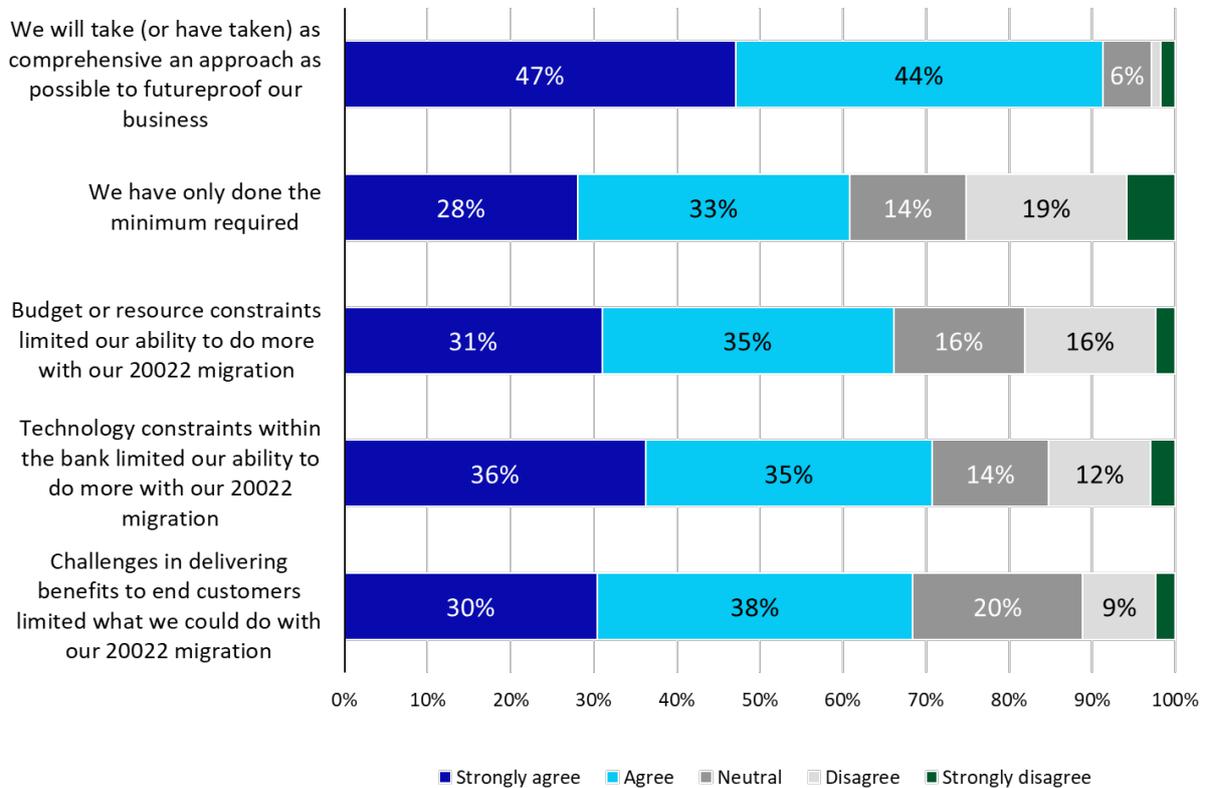
First, the changes driven by regulation haven't slowed. Indeed, a number of upcoming changes are relatively recent. For example, the upcoming FedWire migration in the US, or the new rule book changes for bulk payments in SEPA countries, mean that a number of banks are looking to replace systems less than a decade old. That may seem reasonable until you remember the scale of investments made then. While those systems were a significant improvement on the ones they replaced, it underlines both the changes in technology and the expectations and requirements of the technology.

Second, the objective of modernization projects typically focuses on doing what is required, in the time period available. As a result, while banks do get benefits, they perhaps don't get all the benefits they could. This is because they modernize rather than transform. They get modern technology and some rationalizing of processes, but it is rarely a move to the best solution, delivered in the best way.

Third, the pandemic has amplified this focus on compliance, and not much more, and sometimes, only just. For example, the State of the Nations for Payments

Modernization survey highlighted this for ISO 20022 adoption. Figure 6 highlights that 66% were hampered by budget constraints as a result of COVID-19, while 71% highlighted that technology itself was a constraint.

Figure 6: Migration to ISO 20022 Has Not Been Easy



Question: "What is your approach to ISO 20022?"

Source: Celent, *State of the Nations for Payments Modernization, 2021*

While much of the focus of the conversations around ISO 20022 deadlines has been on how many banks will fail to meet the deadline, the stark truth is that even those who will be ready will likely be doing additional and/or remedial work long after the deadline.

Fourth, real-time payments, especially, the soon to be launched FedNow service in the US and RTR in Canada, and the upcoming mandate in Europe for SEPA Inst. Here there are a number of drivers. A key one is that banks simply won't be able to cajole an existing system into doing real-time payments. Existing systems are batch, and are rarely able to run 24/7/365, and they still would need to address all the other aspects that come with real-time payments. At the same time, banks aren't sure what volumes might look like. Right-sizing a solution is therefore critical.

These points aren't in order of importance, though some banks may feel they are listed in order of priority. After all, if I'm not compliant pretty soon after, the bank may cease to be a bank altogether. Instead, the points serve to highlight that banks are facing conflicting goals: the need to spend significantly on

modernizing their payment systems to be both compliant and competitive and at an ever-increasing pace; and at the same time, to focus on cutting costs and increasing revenues.

This has been why the industry has pivoted to cloud. But are they right to?

THE MOVE TO CLOUD HAS BEGUN

Celent has been writing about payment processing in the cloud for more than 15 years. Prepandemic, we noted that while many banks started with a cloud-first strategy to payments modernization, few ended up with a cloud solution. There were many reasons—some valid, some perhaps less so. Given that the New Unknown drivers have both added to the existing drivers outlined and amplified them, are banks finally moving to the cloud?

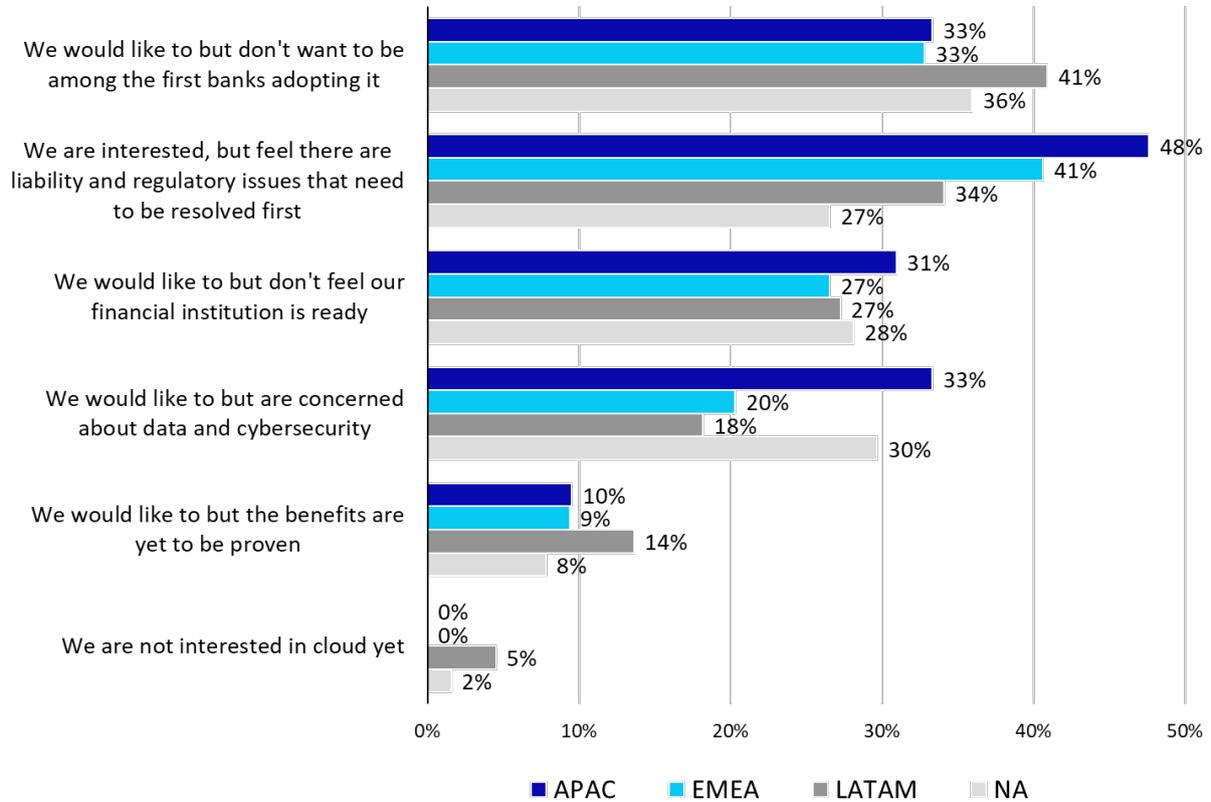
In a word, yes.

Or rather, they *believe* they have or are. Previous Celent research had highlighted the growing confusion in the market on many fronts. There have been providers using the same terms for different solutions and different terms for the same solution. There continues to be an active debate between cloud ready, cloud native, and cloud agnostic. And it is fair to say that not every vendor had started from scratch on the cloud version of their software. As a result, the cloud-first strategy often met reality, and banks chose to take the easier route and stick to an on-premises solution. Almost none ended up in a cloud solution.

Given the pandemic and remote working, some banks had an “aha” moment. If they are managing their systems from home and not their data center, it proved that they could manage a data center anywhere. Not only that, but they realized that a data center that was explicitly designed to run remotely had definite advantages. Furthermore, the constraints on budgets meant they actively needed cheaper and agile solutions to catch up on the impending deadlines. This all led to a significant increase in interest in cloud.

What perhaps is more surprising is the speed at which the industry is pivoting. The State of the Nation survey took place in the summer of 2021 and included a series of questions around cloud. Figure 7 highlights that a significant number of banks saw a range of barriers to adopting cloud, yet virtually no bank stated that they were not interested in the cloud yet.

Figure 7: Banks See Many Barriers to Adopting Payments Processing in the Cloud



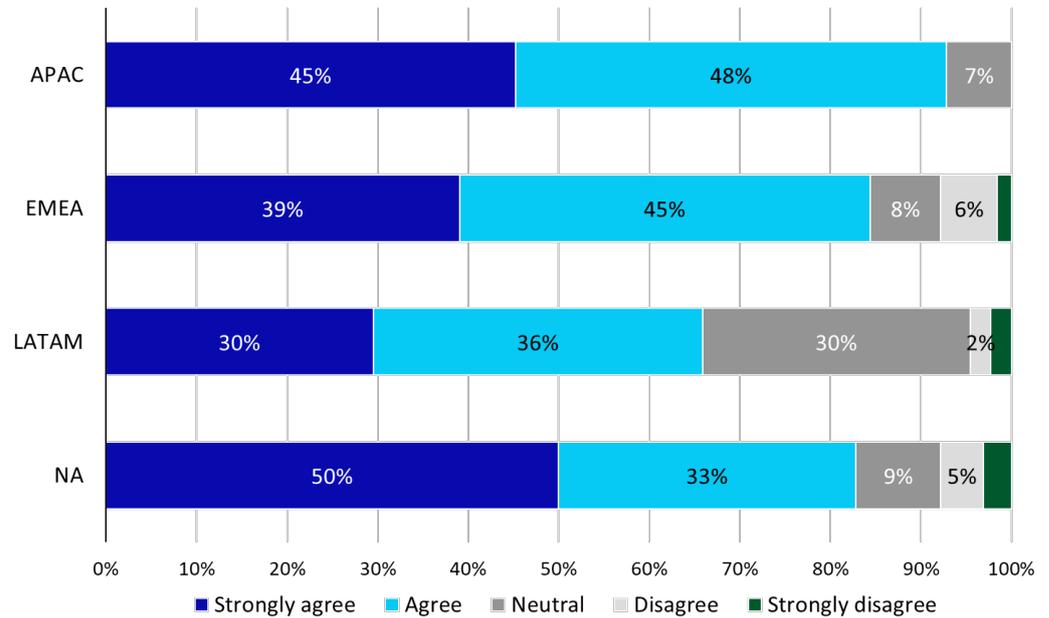
Source: Celent, *State of the Nations for Payments Modernization*, 2021

Figure 8 builds on this. Not only are they interested, but the banks also believe that in the next five to seven years they will adopt some form of payment processing in the cloud.

Despite this appetite, no one quite expected what happened next.

This appetite for cloud-based solutions is well supported in the RFIs for new payment processing solutions Celent is aware of since 2021. Especially in the USA and Europe, almost every single RFI has a cloud-based solution as the preferred deployment option.

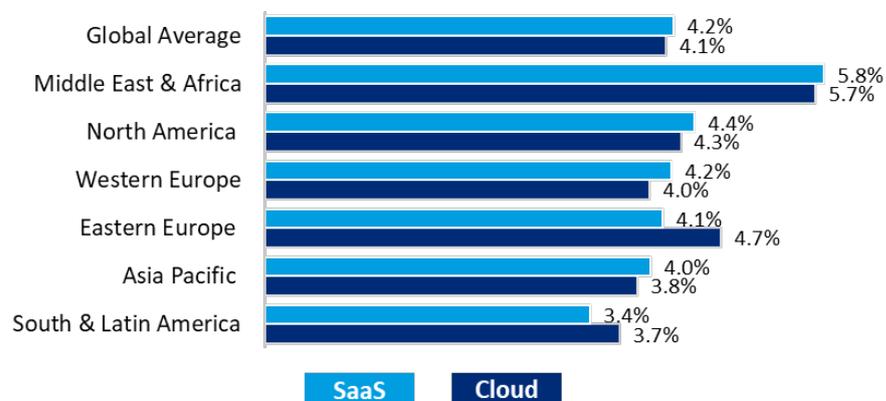
Figure 8: Question: “Do you see in the next five to seven years a significant shift in deployment models, including migration to the cloud, managed services, and Payment as a Service?”



Source: Celent, *State of the Nations for Payments Modernization*, 2021

This move is reflected in corporate banks’ global spending priorities. In Celent’s report *Technology Priorities in Corporate Banking*, there was a clear shift to cloud. Figure 9 shows spending on cloud services is set to expand by 4.1% in 2022 as institutions continue migration and new build projects. More significantly, their global spending on SaaS is set to expand by 4.2%, showing that banks’ adoption of SaaS-based banking software is on the rise.

Figure 9: Question: *Thinking about your spending on external services, please indicate how you expect these outlays to change in 2022.*

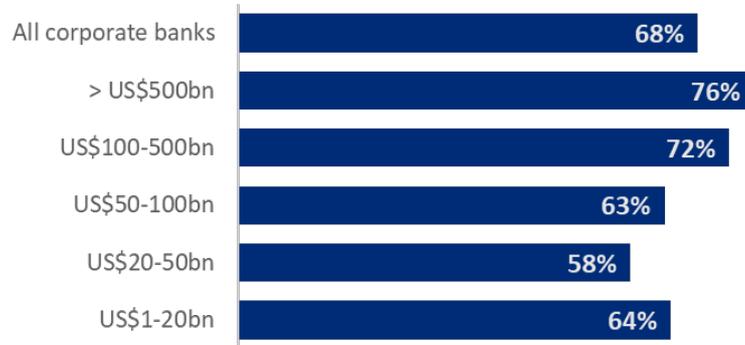


Source: Celent, *Technology Priorities in Corporate Banking*, 2022

Furthermore, appetite is irrespective of institution size, as cloud becomes more widely accepted (Figure 10). Where once cloud was perhaps seen as scary and

difficult, and therefore the domain of the big banks, the move toward putting more workloads in the cloud is across the board.

Figure 10: Question: *Please indicate your agreement with the following statement: “We will move more of our workloads to the public cloud in 2022.”*



Source: Celent, *Technology Priorities in Corporate Banking, 2022*

The move to cloud is happening, and with some clear drivers to explain why this is likely to accelerate. Yet this does cloud a disservice. Yes, it may appear that cloud is the only viable solution going forward, but it's imperative that banks don't lose sight of the reasons why cloud should be the answer, regardless of why they're having to move.

PAYMENTS IN THE CLOUD

There are many benefits for adopting payments in the cloud, but perhaps sometimes some seem to take on a greater importance for adoption. So what are some of the benefits for banks?

Celent has written extensively about why banks ought to be considering moving their payments to the cloud. Yet some are being conflated or rolled up. These benefits include:

- **Scalability.** Cloud allows the solution always to be “right-sized” and grow as demand requires. Equally, it can scale back when not needed. No longer should there be a need to invest in unused capacity, especially when 90% of capacity is typically idle for 90% of the time in many banks’ payments systems. Cloud offers a significant saving. It also allows for banks to maintain and improve Straight-Through-Processing (STP), especially as ISO 20022 messages are adopted. (ISO 20022 messages are often significantly larger in size than equivalent legacy messages.) For real-time payments, this is especially important, as volumes will be unpredictable. It allows the solution to always be “right-sized.”
- **Agility.** Cloud enables banks to innovate and create tailor-made solutions for their clients, using standard building blocks, at a much lower return on investment (ROI) for the new services. Furthermore, not only can the solutions be rolled out “on the fly,” but the platform itself can be updated in real time as well. It means the end of downtime and being trapped with old versions of software.
- **Cost.** In effect, someone else has already invested in the technology stack to make it work, and ongoing investment costs are shared by all the users. The maintenance and support of that technology and ongoing upgrades are also part of that cost. Not only that, given the competition in the cloud solution space, that investment is significantly higher than any one bank could ever make.
- **Security.** The cloud vendors have invested significant sums of money in meeting all the necessary regulatory security standards and the regulations that banks face. With the cloud, security will be stronger and more sophisticated than any one single bank could devise.
- **Future Proofing.** Change, as the saying goes, is constant. The opening section discussed the likely impacts of the changes we’re already facing, but how do you plan for their downstream consequences or, indeed, those we can’t even imagine?

Yet there are still a number of important aspects to note. One is the difference between *where* and *how*.

Among the large banks, installations are often on private cloud, whether their own or a vendor's. The move has been from "on prem" to "someone else's prem." Given it's only partly changed in deployment, these banks tend to only get part of the benefits, especially as they prefer single tenant. This matters as all the cost is borne by that bank rather than shared across other tenants.

This isn't necessarily bad per se. It shows that the bank is taking the necessary steps to relinquish "ownership" in a controlled manner. Ownership was deliberately in quotation marks as there are many nuances going forward. If my vendor manages their product on my instance, on my favourite cloud provider, who owns what? It's perhaps a tortuous example but serves to highlight the changes in bank thinking and labels that are required. This is key to being able to determine a target operating model and a timeframe for adopting rather than just focusing on a "quick fix" or the well-trodden path. In most cases, the banks state that they are looking to move some or all of their functionality to a SaaS-based public cloud deployment. This is because they realize this is the way that they will get the most benefit.

The "how" is the move to SaaS and the move away from owning to consuming software. SaaS is well understood by banks—it just hasn't been widely adopted because of security concerns. Yet progress has been rapid, and now banks rely on SaaS for processing sensitive data from other applications. Indeed, as noted above, some have observed that the standards for security are far higher than almost any bank could implement themselves. This is a significant benefit for smaller banks. Indeed, as the systems are built to appeal to big banks, smaller banks are getting big bank technology at a small bank price, enabling them to offer better and more advanced services to their clients.

In addition, with SaaS, banks can augment their existing on-prem solutions and accelerate the time to market of new payment services while at the same time keep on prem their existing services that do not have the same modernization urgencies for now. This flexibility means that many banks are looking to compile a payments hub solution on public cloud and still take advantage of a SaaS delivery model that will enable them to respond faster to the rapidly changing market and regulatory requirements as well as to their customers' needs.

Note what this chapter *didn't* focus on but which many banks and vendors do lead with: cost. Cloud can be cheaper, especially for greenfield installations that use a multitenant SaaS solution. Yet solely focusing on cost as the driver is both missing the many other benefits and possibly the wrong reason to adopt cloud in the first place.

NOT MIGRATING AT ALL COSTS, AND DEFINITELY NOT LOWEST COST

While cost will always be a significant factor in any purchasing decision, there is the old adage that you sometimes get what you pay for. For Celent, this has two meanings. First, cheapest is rarely best. Second, if you want (and banks should want) more from a solution at the lowest possible price, then banks need to decide what value that brings to them and what they're willing to pay for it.

The need to process payments is the one thing that unites every bank. But after that, it is fair to say that not every bank views payments in the same way. Most banks see payments as a cost center, almost something they have to do, though they would rather dwell on revenue-generating opportunities. As a result, many banks are looking at the comparative costs between the vendors, some of which are very aggressive. At first glance, this is good for the bank, but in the longer term, will this be the case? Cheap may seem good, but a race to the bottom rarely serves any market well.

First, how will the vendor get cheap, yet economically viable? While payments is a scale business, with a relatively fixed cost on a day-to-day basis, it does require scale. This is a double-edged sword. To get scale, the vendor will need to be aggressive in customer acquisition, make it as easy and cheap and possible to connect, and standardize as much as possible. By implication that means the system is designed to suit the lowest common denominator, with little or no choice in terms of customization or even configuration. It also means the vendor is constantly at risk of losing clients: easy onboarding equally makes it easy for a bank to disconnect and connect to an alternative supplier. To be clear, scale isn't a bad thing at all, but if it's the main driver of the vendor's business model, it should cause the bank to ask more detailed questions.

Second, what is the long-term viability? Think about the last 15 years. What was cutting-edge technology then is now already considered legacy. Indeed, even "cloud-ready" technology of five years ago is being rewritten. So how will the vendor continue to invest? Along with taxes, perhaps technology evolution is now one of the few constants in life!

Instead, banks should think more about the total cost of ownership, not just transaction costs. Most SaaS-based vendors don't include maintenance as part of their fee, but what is included? Banks can experience the biggest savings not by moving to SaaS-based pricing but by the vendor having to keep the system constantly up to date. No more should banks find themselves marooned on old versions of software, or worse, systems that will no longer be updated. Given the

delivery model, it also means that new features and functions (whether completely new, like FedNow, or just new to the bank) can be turned on almost by the flick of a switch. That creates significant savings from a range of things such as business case creation for investment and resources for implementation.

This also delivers agility to the bank: they will be ready earlier for mandatory changes and will be able to move at pace to things they chose to do.

A Different Lens for Vendor Selection

Cost will always be a key consideration, but it shouldn't be the sole consideration. Increasingly there are a number of factors that banks should be thinking about. The first is value versus cost. Celent believes that payments are still integral to a bank's strategy. Choosing a vendor that understands that and demonstrates how they will continue to support the bank going forward is key. Simply put, a vendor who continues to invest to do more than the basics will likely bring more value over time. The key is that vendors invest in a range of things, not just one or two. As we think about our personal lives, we tend to be loyal to those businesses that do just that little bit more for us, however simple.

Second is delivery. Cloud is still relatively nascent in payments, and payments are critical to the bank. Detailed diligence on the vendors track record of both onboarding, but the ongoing maintenance will be key. These will also be a great insight into aspects that the bank may have been considered or planned for.

Third, those additional value adds, and how that they are of value to your bank. Each bank will have a different view on value as their starting point, and aspirations will vary. Some banks might want greater operational support. Others might like access to an ecosystem of preintegrated solutions from partners. Still others might prefer preconfigured packages and toolkits to help their innovation agenda, or even just greater control and visibility into data.

Fourth is road map. This is a pretty standard ask when selecting vendors but perhaps takes on a new dimension. Bigger banks will be used to getting vendors to do customizations for them, but this won't be the case using SaaS. So how configurable is the solution? How is the road map created and delivered? The danger here with some vendors is that the road map will be shaped by critical mass rather than—if such a phrase exists—critical opportunity. The former means the pace of change is likely to be driven by the mass rather than the most forward-thinking.

Finally, innovation, whether technical or business model. The underlying point here is how you might be able to use their tools to do different things. With a relatively standard service, it's what you do with it that differentiates a bank. For example, can you consume the SaaS in a more granular way to allow it to be embedded in your client's processes? Can their ecosystem be used to create new products rather than just improve your own processes?

PATH FORWARD

The industry is at a turning point in terms of technology and is close to a tipping point. We make this distinction to highlight that in some ways there has been a leveling of the playing field. Banks are pretty much all starting from the same point, at the same time, with the same set of potential vendors. It's what they do next that will shape the industry.

Most banks have typically been fast followers rather than at the bleeding edge. That said, the needs of banks have pushed technology innovation. Things such as ATM networks and SWIFT are today seen as antiquated, but at the time, necessity drove their creators to push what was possible.

Today banks have almost a unique opportunity. Cloud has been widely used for years, including within banks. It isn't at that leading edge anymore. Not only that, pretty much all banks are moving together rather than having clear leaders and laggards, with the leaders largely determined by the depths of their pockets. In many ways, it has democratized payments again. What the leading banks do next may define the shape of the industry for both banks and vendors.

There are a number of things that banks need to consider, but two stand out. Banks should decide if and when they move to cloud. There are natural cycles for replacement, and some may find themselves at a disadvantage if they're in the rearguard. That said, knowing which things need to move and when will be key. While Celent has long advocated the adoption of payment hubs, where a single solution can process all payments on a single platform, we have also stated that a big bang approach of moving everything simultaneously is generally not the best approach. A phased, considered approach is likely the best solution for most banks.

Second is strategy. Celent is still surprised how few banks have a strategy for payments for the next five years. Ideally, the strategy would be detailed, and even just describing a sense of what products might need replacing or what triggers might cause the bank to change its approach would be useful. To misquote Kipling, if you don't know where you're going, any road will take you there. In turn this may lead to a choice of solution that may take you forward but not where you want to go.

These two items will then help shape the choice of solution best suited to the bank.

But better hurry: every other bank is doing the same thing, and there could be an ever-growing queue ahead.

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