

Build in-house vs. buy: A Guide to Choosing the Best Approach

Payments modernization is critical to the success of financial institutions of all sizes around the globe. No financial institutions are immune to the changes happening in the industry and the pressure to adapt is only going to continue to increase.

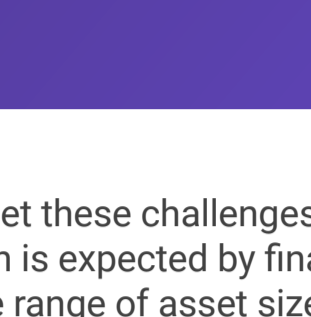
New survey conducted by Aite-Novarica Group shows that financial institutions are struggling on several fronts



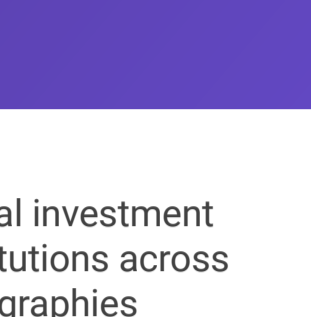
of banks report that they have already lost 10% or more of their payments volume to fintech providers



of banks believe that their lack of robust services is preventing acquisition of new clients



of banks report technical challenges of integrating with legacy systems to be an obstacle in introducing new products and services



of banks expect an increase in payments volume



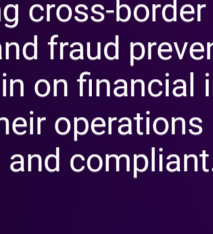
To meet these challenges substantial investment growth is expected by financial institutions across a wide range of asset sizes and geographies

of banks expect their investment in payments technology will grow or remain the same

A world of opportunity in payments

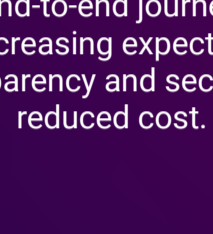
The complexity and cost of updating and upgrading existing back-end payment systems to support their evolving payments business needs is placing pressure on banks - they are struggling to keep pace. Furthermore, manual management of highly complex and fragmented payment services and continuously changing demands is undermining the ability of banks not just to innovate, but also to deliver and operate services in a timely and efficient manner.

Payments landscape challenges



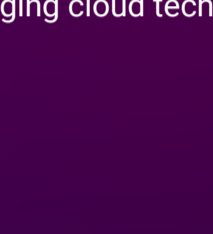
Frequent regulatory & compliance requirements

The move to ISO 20022 messages, adoption of Real-Time Payments, enhancing cross-border payments options, and fraud prevention place great strain on financial institutions to keep their operations up-to-date and compliant.



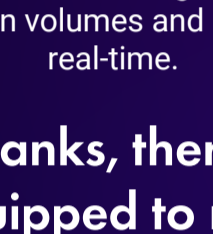
Customer expectations

Customers are increasingly demanding an improved (intuitive, low-friction, contextual, and real time) end-to-end journey along with increasing expectation of transparency and security at reduced cost.



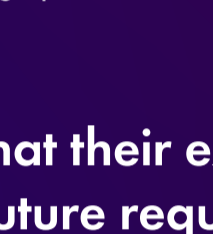
Increased competition

New entrants (e.g., Fintechs) focus on delivering a fully digital experience and bringing innovation to market quickly leveraging cloud technology.



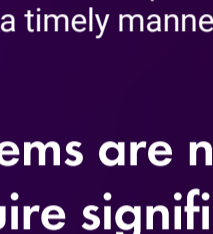
Increased complexities

Current payments processing systems are not designed to react to the new market dynamics of rapidly-changing regulation, clearing schemes, and customer demands alongside increased transaction volumes and support for real-time.



Increased costs

Patching and maintaining siloed and fragmented legacy systems, as well as supporting manual processes that span multiple systems results in soaring operational expense.



Slow time to market

The effort required to manage complex services and continuously changing environments using current systems and processes undermines the ability to innovate, deliver and operate services in a timely manner.

Many banks, therefore, recognize that their existing legacy systems are no longer equipped to meet current and future requirements and require significant investment in each individual rail.

An important decision is whether to develop the capabilities in-house or choose a vendor product. The table below provides some pros and cons to help with this decision.

	Build	Buy
Pros	The solution can be tailored to the clients' specific needs and operating environment	Takes advantage of the vendors expertise (e.g., understanding global clearing solutions and SI requirements, best practice payment workflows and configuration options) rather than developing this internally
	Client has, or wants to build business services that differentiate their offering and are not available in a vendor solution	Ongoing compliance and regulatory changes delivered under support
	No external vendor relationship to manage	Simplified operations – less cost and risk than adding on to legacy infrastructures
	May be easier to make a business case and retain stakeholder support for internal development	Faster Time to Market
	Suited to small scale modifications	Lower TCO - especially when adopting cloud solutions
Cons	Risk of implementing a tactical "quick fix" rather than a strategic solution decreasing overall coherence of the solution	Implementation of a new payment solution is typically a transformation journey requiring sufficient client investment (time and cost) and willingness to review/rework current operating model to get the most out of the vendor solution capabilities and maximise ROI e.g.,
	May be difficult to extend and/or stress existing, fragmented infrastructure (e.g. adapting to real-time processing, utilizing data-rich ISO 20022 messages, moving to Open Banking, and quickly implementing value added services)	<ul style="list-style-type: none"> Accepting where processing is really commoditized rather than differentiated
	Very high upfront investment in terms of requirements analysis and scope of work (versus evaluating the best software solution); errors can result in under delivery and disappointed customers	<ul style="list-style-type: none"> Rationalizing use cases that are currently spread across multiple departments and systems leading to high maintenance cost and duplication of effort
	Cost effectiveness – requires complex projects with high cost and timeframe, and large ongoing maintenance effort	<ul style="list-style-type: none"> Planning for staff redeployments from low to high value business tasks
	Often there are "hidden" costs (e.g. licenses and infrastructure requirements) that may not be initially factored in	
	Risk of rapid obsolescence as needs change during the duration of the project and the solution has not been designed with sufficient agility	
	Building on top of legacy technology may make it hard to attract new talent, while an internal move to new technology may expose current skills gaps	
	High cost of infrastructure sized for peak traffic, along with delivering the required availability, security, scalability, and business continuity demanded by market, regulators and customers	

Though it depends on individual circumstances, increasingly financial institutions are realizing that vendor partnerships are critical to success. Through cloud implementations and Payments-as-a-Service (PaaS) offerings, accessibility of technology has reached previously unprecedented levels.

For banks of any size, building payment functionality in-house is now often unnecessary and, in many cases, much more expensive and inefficient than finding an effective partner, whether that be to lay the foundational capabilities on which they build their competitive differentiation, or to provide a turn-key solution.

Modern payment systems to address the challenges of digital and open banking



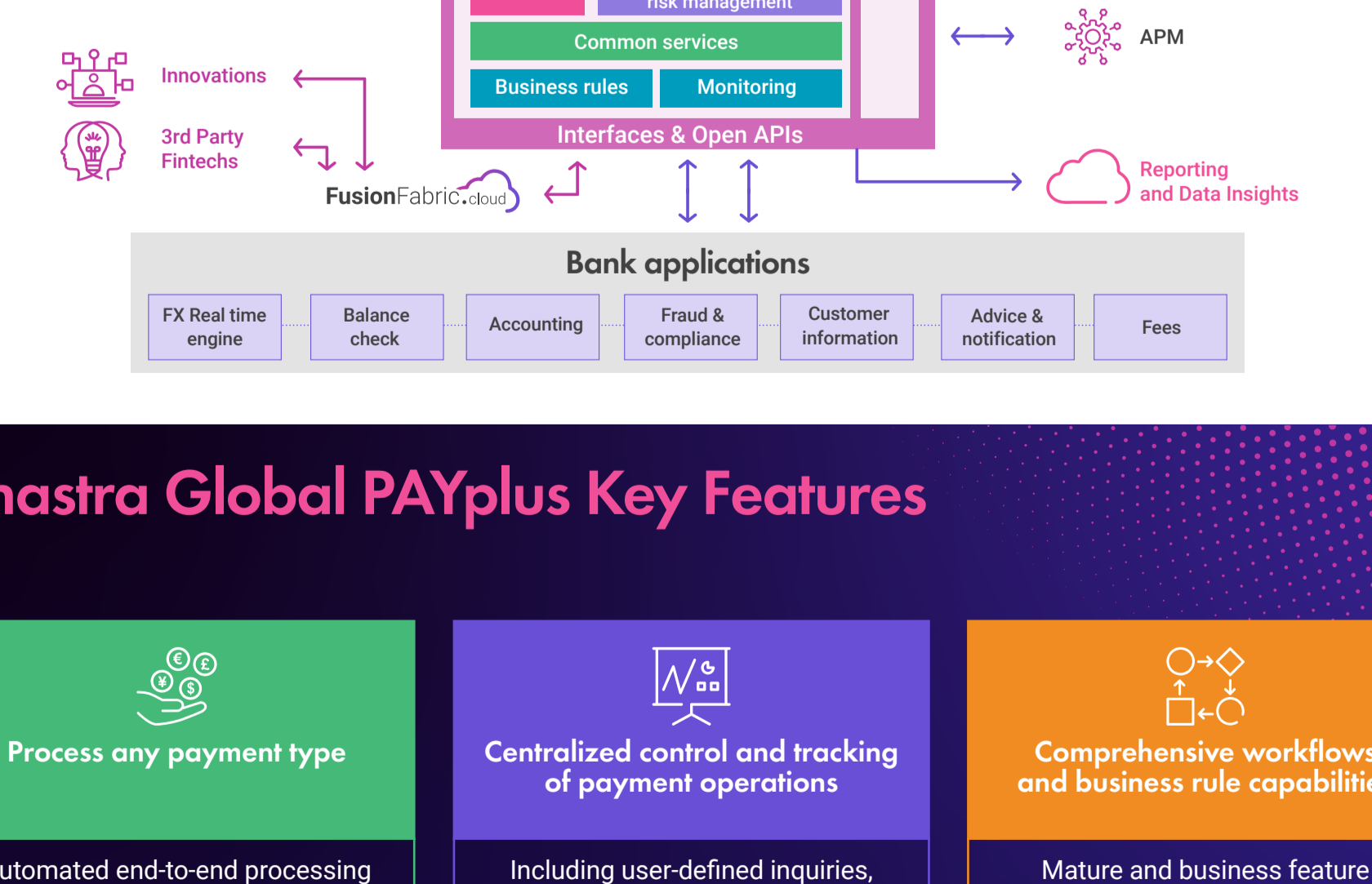
To overcome the numerous challenges introduced by the ever-evolving market and remain relevant, leading financial institutions are embracing an open, modern solution – a Payment Hub.

A Payment Hub consolidates the processing of multiple payment types (bulk/ACH, high value/RTGS, real-time/instant, and cross-border) onto a single central, standardized solution. A centralized hub solution not only helps improve processing efficiency and reduce operating costs, but it can also be a foundation for competitive differentiation as it enables financial institutions to deliver faster time to market for new products and value-added services.

Payment Hub key benefits

- Increased operational efficiency**: A unified system for orchestrating and automating end-to-end payment processing of all payments types.
- Improved visibility and reporting capabilities**: Through centralized and normalized ISO 20022-native payment data.
- Improved fraud prevention**: And regulatory compliance by implementing requirements centrally - not multiple times across each payment stream.
- Lower operations costs**: No more complex integrations between multiple payments and other bank systems - configuration through business rules with high levels of automation and STP.
- Enhanced customer experience**: Increase visibility and transparency across transaction workflows and enrich your value proposition with Value Added Services.
- Improved risk management**: Centralized control reduces the risk associated with multiple fragmented payment systems.

Introducing Finastra Intelligent Payments Hub



Finastra Global PAYplus Key Features

- Process any payment type**: Automated end-to-end processing of ACH, RTGS, SWIFT and real-time payments with high levels of STP.
- Centralized control and tracking of payment operations**: Including user-defined inquiries, elastic search, full processing audit trail and global view of liquidity risks.
- Comprehensive workflows and business rule capabilities**: Mature and business feature rich workflows, with multi-currency, and multi-entity organizational structures that align with any operating model.
- Configurable user interface**: Users can control, simplify and streamline the experience and content to identify risks and prioritize tasks.
- Modern architecture**: API and microservice based, modular design enables addition of new payment rails and services as needed.
- Platform and marketplace enabled**: Through integration with FusionFabric.cloud, innovation is accelerated through utilizing the services of an ecosystem of fintechs, financial institutions, and other institutions.



Finastra Global PAYplus has been named Best in Class in Aite-Novarica Group's Payment Hub Matrix!