

# 2016 Global Payments Insight Survey: Overview

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Finding your place in the evolving payments ecosystem

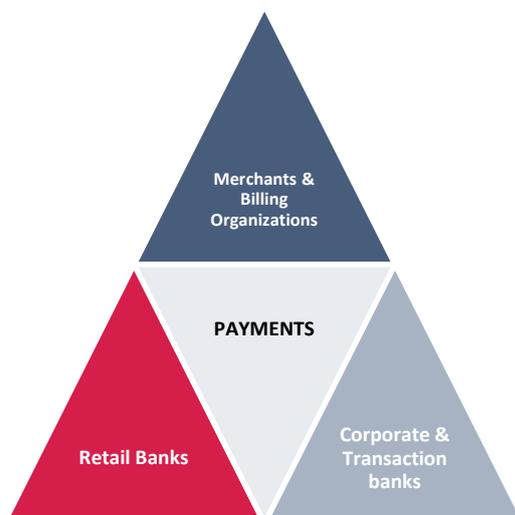


# Catalyst

## Payment players need to rethink roles and relationships

The payments industry has always been an ecosystem in which participants have particular roles and relationships with others.

It is now changing rapidly as existing participants continue to invest in technology and adjust to new roles while new entrants, particularly from the fintech world, continue to create new business models and threaten to displace incumbents.



Payment technologies and platforms bind these participants together in a tight ecosystem. Merchants and billing organizations interact with corporate and transaction banks in a different part of the value chain than they do with their own customers and with retail banks. However, each have different and changing priorities as well as common needs and goals.

How those touchpoints are changing, how they affect the relationships between different participants, what opportunities that

presents and what that means for their future strategies is the subject of this series of reports.

While much of the media attention is driven by the fintech hype machine and filtered through a consumer lens, there are considerable shifts happening at the regulatory, infrastructural and technology level that will have a profound effect on the way the payments industry operates. Market participants will have to create business and technical strategies to address the changes and make decisions about their role in the value chain.

In 2015, technology analyst house Ovum, in conjunction with ACI Worldwide, conducted the first annual Ovum Global Payments Insight Survey. This global survey of Merchants, retail banks and corporate banks, and billing organizations examines strategic plans and IT investment trends, asking respondents about their experiences, perceptions and expectations of payments and how this is shaping their behavior.

The following overview report highlights some of the key findings from the second year of this research and provides an explanation of how the different players' views contrast. It is one part of a five-part series based on ACI and Ovum's 2016 survey. Those interested in the individual whitepapers focused on merchants and billing organizations, retail banks and transaction banking should visit [www.aciworldwide.com/paymentsinsight](http://www.aciworldwide.com/paymentsinsight) for further information.

# Summary

## Competition and modernization are common themes

Key insights of this research include:

- 52.4% of transaction banks expect their investment in payment systems to increase over the next 18-24 months. Only 6.0% expect a decrease.
- 76.2% of transaction banking respondents cite improving infrastructure as the main driver for additional investments in payments, closely followed by competitive pressure (75.5%) and customer protection requirements (74.0%).
- For retail banks, innovation and cost control are the primary drivers, with legacy renewal a top priority in achieving goals.
- The global drive to real-time payments is seen as an important enabler for retail banks to improve services to their business and consumer customers.
- Nearly a third of billing organizations say they will have to change their customer fee structure in the short term, alongside an expected change to their customer base as the impact of new regulations on billing organizations are having deep enterprise wide impact.
- For Merchants, consumer demand means that payments technology has become part of their business strategy as the number of alternative payment methods burgeon.
- Security remains a critical issue for every player, with corporate banks realizing that this could play to their strengths and Merchants concerned about data

breaches and the loss of personal customer data.

While there are important differences in emphasis across the different groups, there are also commonalities and all see benefits in joining forces for mutual benefit in critical areas such as infrastructure modernization and the industrialization of fintech innovation.

- 1) The global move to real-time payments is a catalyst for change for most participants, with both the US and eurozone countries setting out ambitious timescales for the adoption of real-time infrastructures.
- 2) This is also pushing the global adoption of international standards, ISO 20022 in particular, which is expected to ease integration and migration problems.
- 3) Regulation remains a concern, but also provides opportunities. In Europe the second Payment Services Directive (PSD2) will introduce Access to Accounts (XS2A) and new payment instruments that fintech firms are already investing in. How FIs react to these changes above and beyond simple compliance will determine their ability to survive in an increasingly complex and competitive market.
- 4) Open APIs are giving many pause for thought. In Europe, the XS2A requirements of the PSD2, and the intentions of individual governments such as the UK's to push this, are focusing minds on the challenges and, in some cases, the opportunities this presents.

# Investment in payments to rise across the board

## Merchants and payment initiators see higher spending

Across the board investment in payments is expected to increase, with the majority of survey respondents in all sectors saying that they will increase spending in the short- to medium-term.

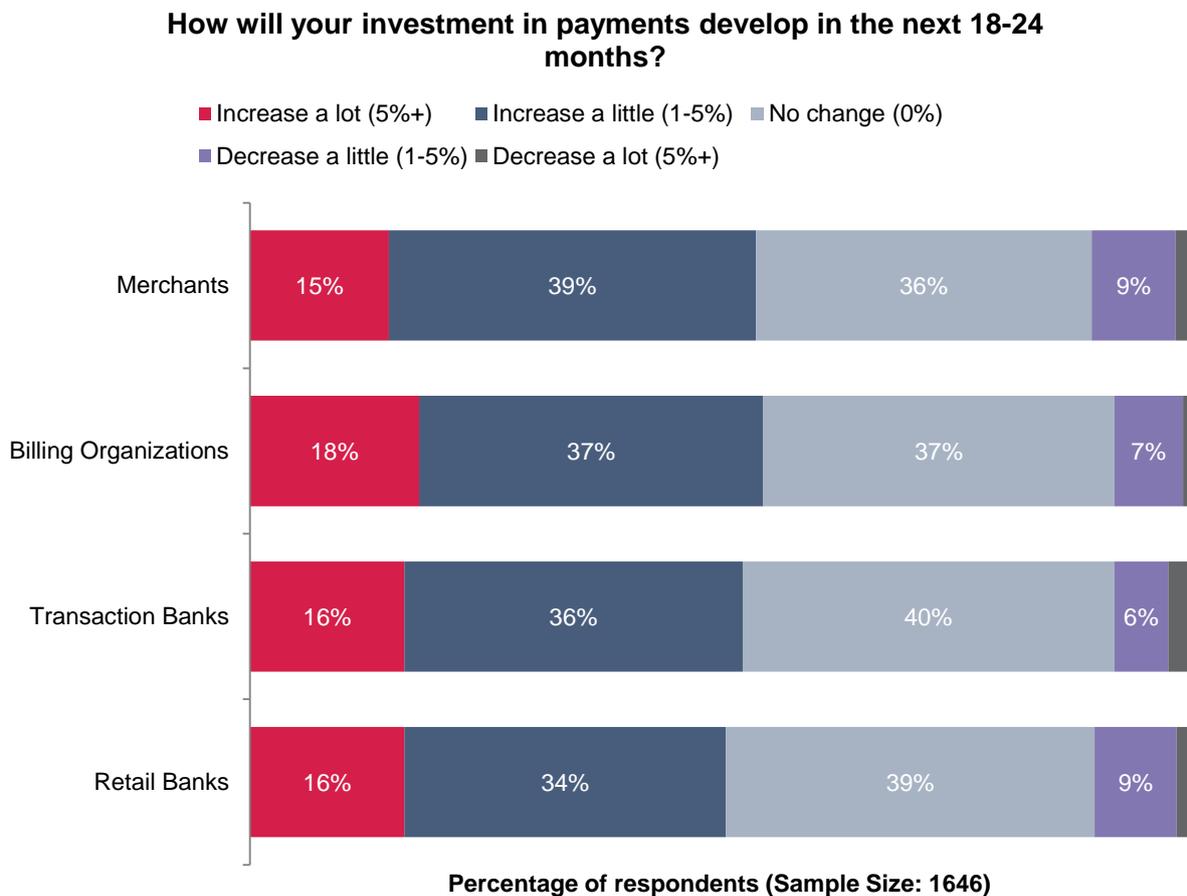
On the banking side, both transaction and retail financial institutions see investments continuing to increase, but not at the same rate as Merchants and billing institutions.

In fact, a sizable minority of the banks – around 40% – see investments in payments

remaining static or even decreasing over the near to medium term, though this probably reflects previous growth in spending being maintained

Differences in priorities can be seen across the sectors: for instance, merchants and billers see more spending being targeted towards customer service improvements).

**Figure 1: The majority of merchants, billing organizations, retail banks and transaction banks expect their payments IT investments will continue to rise**



Source: 2016 Ovum Global Payments Insight Survey

# Common drivers are fueling investment

## Competition and security lead innovation and enhancement

Across the different sectors there is a surprising amount of commonality in what is driving investment in payments systems.

At the top of the list overall are competitive pressure and security considerations, cited by 73% and 72% of respondents, followed closely by customer protection.

It is also clear that these issues are more important to all parties than product and service enhancements such as the addition of analytics to payments or improved channel capabilities.

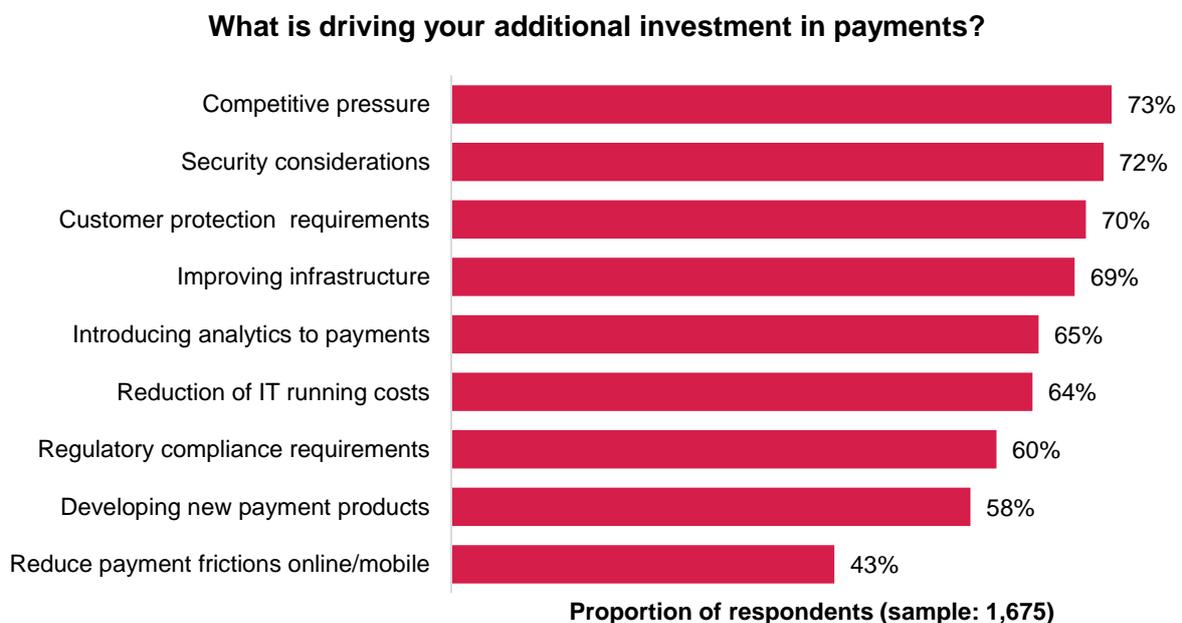
Looking more closely, it can be seen that improvements to infrastructure are more important to the financial institutions – for 75% of transaction banking respondents it is

the most important driver of all, marginally topping security and customer protection, compared to the cross-sector figure of 36%.

This is perhaps unsurprising given their urgent need to modernize aging legacy systems to operate in an increasingly mobile and real-time payments environment.

For 40% of merchants, security considerations push competitive pressures into second place, at 38%. This is a far higher showing than in the previous year, reflecting a growing awareness of security driven by high-profile data breaches. Merchants also cite the need to improve point-of-sale acceptance – not a factor for the other sectors.

**Figure 2: Competitive pressures and concerns over security are the leading drivers of investment across all sectors**



Source: 2016 Ovum Global Payments Insight Survey

## Asia sees strong drive for investment in payments

### Transaction banking infrastructure renewal is driving spending in region

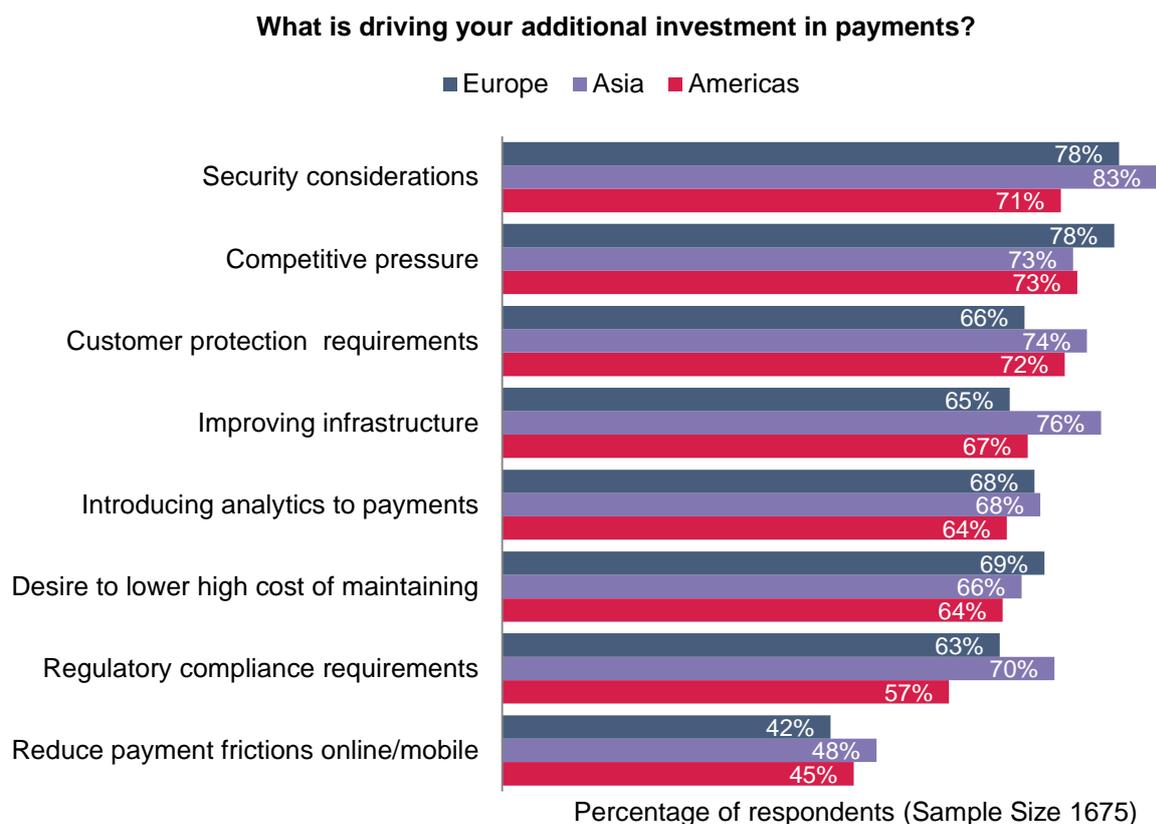
Respondents in Asia scored all drivers for increased investment higher than their counterparts in the rest of the World. In the region, security considerations are seen as the most important driver for increased investment, with 83% of respondents citing it, compared to 78% and 71% in the US and Europe respectively.

The infrastructure investment figure for Asia is also noticeably higher than other regions, at 76%. The figure is given a considerable boost by the region's retail and transaction banks,

80% and 83% respectively of which cite improvements in infrastructure as their main driver for investment. Among US and European transaction banks the figures are 62% and 76% while for retail banks they are 66% and 70%.

The strong showing for all drivers across the board reflects the dynamic and rapidly evolving nature of the payments ecosystem in Asia, where new players like China's Alipay are transforming the relationship between all players.

**Figure 3: Organizations in Asia feel slightly more pressure to invest, particularly around infrastructure, competitive pressure and security**



Source: 2016 Ovum Global Payments Insight Survey

# Security tops the agenda, particularly for merchants

## Merchants see security as increasingly important

Merchants have become increasingly concerned about the effects of large scale data breaches and the loss of sensitive customer data, pushing the topic of security to the top of the list of investment drivers in this sector.

High profile data breaches such in the retail sector, such those at Target and Home Depot, with the consequent reputational damage, have undoubtedly contributed to this heightened awareness.

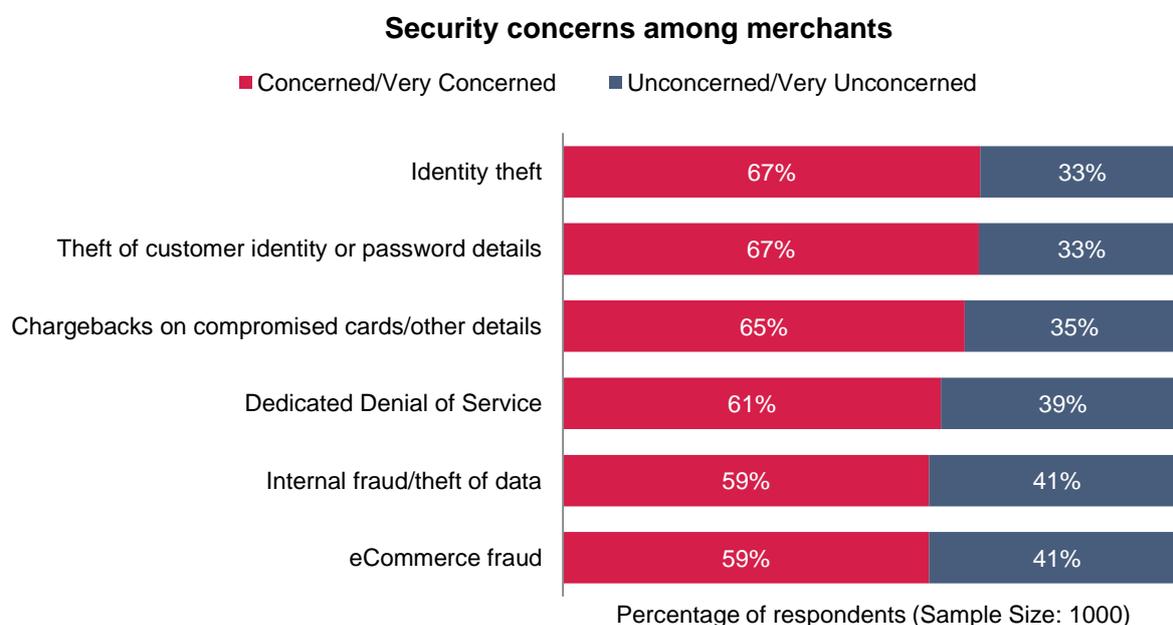
But reputational damage is not the only thing that merchants fear: high on their list of concerns are identity theft and theft of customer details such as passwords that could be used for fraudulent purposes, leading fines

for data protection failures as well as chargebacks from the card schemes.

Banks and processors, both sectors with a longer history of using technology, and, arguably, a more deeply engrained security culture, register even more concern about these issues, with the added topics of internal security and compromise of corporate and SME accounts.

Banks, however, are also seen as more secure than other service providers. This provides an opportunity for banks to work with merchants and others to provide security to them, something which large banks have already identified as a potential growth area for them.

**Figure 4: Security concerns, particularly around data breaches, are very much top of mind for merchants**



Source: 2016 Ovum Global Payments Insight Survey

# Immediate payments offer new opportunities

## Real-time infrastructures seen as delivering benefits for consumers

The move towards adoption of real-time payments internationally – particularly in the US and the eurozone – has created a sense of urgency among all players, who, on the whole, see benefits from the improved infrastructure.

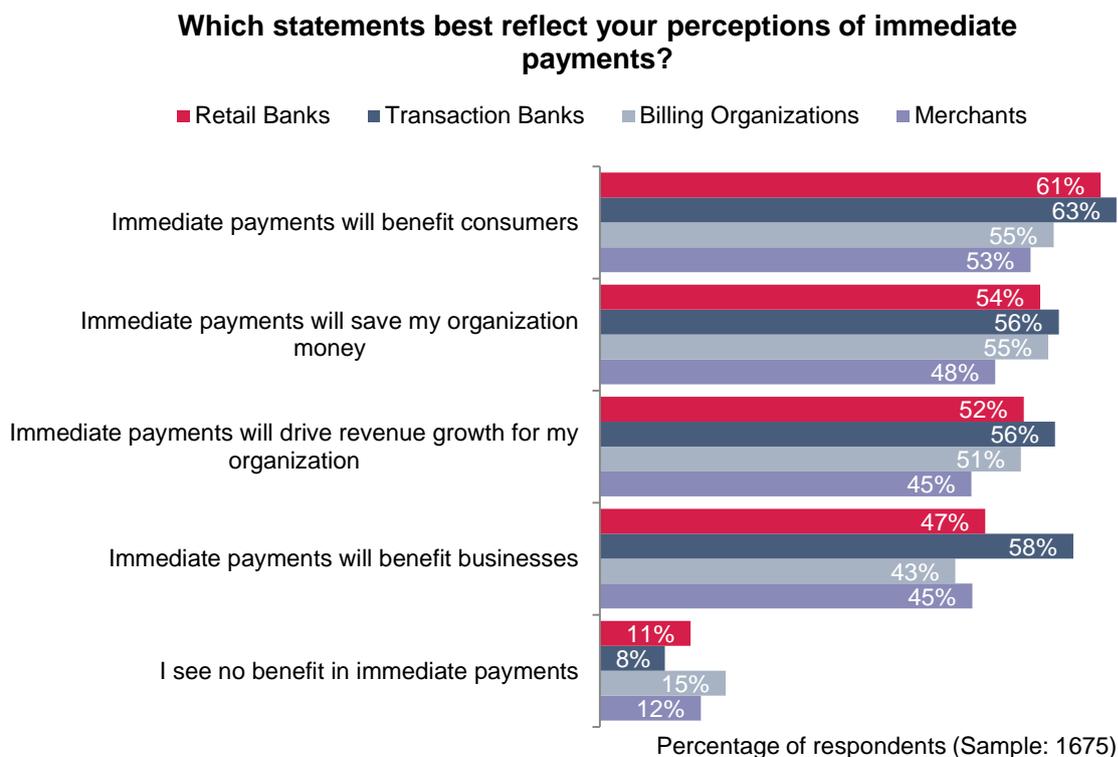
Consumers are seen by most players as the group that will benefit most, while less than half of merchants, payment receivers and retail banks think that businesses will benefit.

The exception to this is the transaction banks, 58% of which see benefits for business customers.

That figure is higher than the percentage of transaction banks who think that immediate payments will drive revenue growth – though even here they are more optimistic than the other three categories, with only 45% of merchants expecting growth to come from the development of immediate payments infrastructures.

Merchants are also less positive about the cost benefits of immediate payments with less than half expecting to save money through immediate payments, compared to 56% of transaction banks who are the most optimistic in this regard.

**Figure 5: All players see the consumer as the biggest winner with immediate payments**



Source: 2016 Ovum Global Payments Insight Survey

# Appendix

For its 2016 Global Payments Insight Survey Ovum, in conjunction with ACI Worldwide, created a 27 point questionnaire to understand how the current and future landscape of the payments industry.

The study examines a range of themes, including:

- Investment drivers and focus areas for 2016/17
- Role of payments in broader strategic objectives
- Attitudes to newer opportunities, such as immediate payments and blockchain
- Payments IT spending plans and expected ROI
- Preferred partners for delivering new services

The research focuses on four different industry verticals and a total of 14 sub-industry verticals. The lead categories are as follows:

- Billing organizations
- Retail banking
- Merchants
- Transaction banking

The fieldwork was conducted with senior executives responsible for payments strategy and/or payments IT strategy in each business, and was in the field from December 2015 - February 2016. In total, 1,675 executives were interviewed, across 14 industry sub-verticals in 18 countries globally.

This global perspective focuses on the overview of the complete survey findings. Those interested in finding out more detail about the Merchant and financial institution findings are advised to visit [www.aciworldwide.com/paymentsinsight](http://www.aciworldwide.com/paymentsinsight) for further information.

Respondent Breakdown	
<i>Total Respondents</i>	<b>1,675</b>
Respondents by Region	
<i>Americas</i>	<b>44.7%</b>
<i>EMEA</i>	<b>27.8.7%</b>
<i>Asia Pacific</i>	<b>27.8%</b>
Sub-verticals surveyed	
<b>Billing Organizations</b>	
<i>Higher education</i>	
<i>Insurance (health, P&amp;C)</i>	
<i>Consumer finance (e.g. automotive loans)</i>	
<i>Government (includes municipal utilities)</i>	
<i>Healthcare providers</i>	
<i>Utilities (investor owned, private)</i>	
<b>Merchants</b>	
<i>General merchandise (includes fashion, electronics, health &amp; beauty, FMCG, etc.)</i>	
<i>Travel &amp; lodging</i>	
<i>Fuel/convenience stores</i>	
<i>Grocery/supermarket</i>	
<i>Food service/cafes/restaurants</i>	
<b>Financial Institutions</b>	
<i>Retail banking</i>	
<i>Merchant acquiring</i>	
<i>Commercial and transaction banking</i>	
Example Respondent Titles	
<b>Director, Global Corporate Payments, Chief Operations Officer, Finance Director, Revenue Manager, Owner, etc.</b>	

## Author

David Bannister, Principal Analyst, Financial Services Technology

[david.bannister@ovum.com](mailto:david.bannister@ovum.com)

## Ovum Consulting

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[www.ovum.com](http://www.ovum.com)

[askananalyst@ovum.com](mailto:askananalyst@ovum.com)

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