2017 Global Payments Insight Survey: Overview

Gaining traction in a changing landscape

Catalyst

Payment players need to rethink roles and relationships

The payments market is changing. Across the value chain, organizations are investing in technology as they try to adjust to a shifting market. Both existing and new players are now creating new payments models and in the process upending existing business paradigms. Market participants across the payments value chain now have to create new strategies to address the changes occurring and seize the opportunity these payment shifts are bringing.

Critical to forming an effective payments strategy is understanding how the forces at play in the payments market affect all corners of the value chain. Organizations of all types must understand how these changes fit in with existing payments capabilities and business priorities.

Starting in 2015, technology analyst house Ovum, in conjunction with ACI Worldwide, has conducted the annual Ovum Global Payments Insight Survey. This global survey of merchants, retail 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 investment and development activity.

This global overview focused report highlights some of the key findings from the third year of this research. It provides an explanation of how the views and perspectives of the different players in the ecosystem contrast. It is one part of a four-part series based on Ovum's 2017 survey. Those interested in the reports focusing on merchants, retail banking and billing organizations should visit www.aciworldwide.com/paymentsinsight for further information.

Summary

Seeking new ways to grow

Key insights of this research include:

- 33% of organizations are increasing their investments in their payments infrastructure by 5% or more in the next 18-24 months
- The benefits of new payment technologies are increasingly recognized by payment related organizations of all types, with a significant increase of over 10% from 2015 to 2017. 82% now view new payment technologies as a benefit for their organization.
- 93% of respondents across all sectors cited improving infrastructure as a key driver behind their additional payments investment. This is followed closely by security (88%).
- 54% of organizations report they are likely to move more of their payments infrastructure to SaaS/Cloud delivery models
- Overall, 82% of organizations believe improved integration between payment processing and their ERP systems would benefit their organization.
- 65% of banks believe that the partnerships with third parties via APIs will improve their customer proposition

Payments investment has been at record highs in recent years, as organizations seek to improve their capabilities as they move to match shifting consumer and market expectations. Modernizing infrastructure has been and will continue to be the central plank of adapting payments to a more digital world.

Following on from such high levels of investment activity, recognition of the importance of payments, and confidence in organizations own payments capabilities have both grown. As firms of all types become more confident they also become more likely to innovate and develop new revenue and service opportunities.

The shifting nature of the payments landscape however means that even though confidence is improving in some areas, new challenges are emerging. The includes the challenge of understanding increasingly complex consumer needs across the enterprise, and managing the growing security challenges brought on by the continued growth of card not present (CNP) transactions.

The next wave of payments investment and innovation is now focusing on improving the broader role of payments across the enterprise. This includes the greater integration of payments into existing ERP systems, helping provide a better real time view of the customer. Alongside this, the shift to cloud and SaaS delivery models are set to have a much bigger impact on payments strategy and capabilities within the enterprise. The growth of APIs in financial services add further complexity to the picture, and will likely add significant opportunities and challenges of their own.

The modernization of payments is an ongoing process and activity levels will continue to be very high for the foreseeable future.

Recommendations

The forces shaping the payments market today are now beyond the control of any single organization (or indeed technology). However, there are steps that enterprises across the financial institution, retailer, and billing organization landscape can take, that will help them better prepare for – and respond to – these shifts to ensure that they make the most of the opportunities presented by global payments transformation.

These steps include:

- **Payments investment shows no signs of slowing down and organizations of all types must keep pace.** The rate of change in payments today in terms of form factor, channel, funding mechanism, associated technologies, data integration etc., means that payments is simultaneously becoming more complex and more critical. Investing in capabilities is no longer a 'once and done' proposition and organizations of all types must maintain a focus on their capabilities and at the least maintain a medium-term roadmap.

- **Strong payments infrastructure is the backbone to all other services.** Legacy infrastructure remains far too prevalent across all corners of the payments industry, and even where this can be pushed to accommodate new tools and services, risks diminishing the EBIT benefits, and lacks the agility for long-term continued development. Organizations must ensure they have the flexibility and agility to cope with today's constantly shifting landscape

- **The threat of CNP fraud is very real and must not be ignored.** The success in recent years of diminishing in-store fraud risks masking the challenge now rising in the CNP space. A balance must be struck between driving security and reducing payment frictions. However organizations who get this equation wrong on either side will face consequences.

- **Payments innovation extends to new payment delivery and integration models.** As more organizations seek to improve their payments capabilities, new means of enabling payments will provide a range of benefits. Security concerns must be kept top of mind, but SaaS options should be explored by all organizations. Likewise, better integration of payments and transaction data into Enterprise Resource Planning (ERP) and other systems hold the potential to drive significant business benefits at both a front and back office level. The opening up of APIs by financial service providers in particular holds the potential to drive a whole new slew of payments innovation.

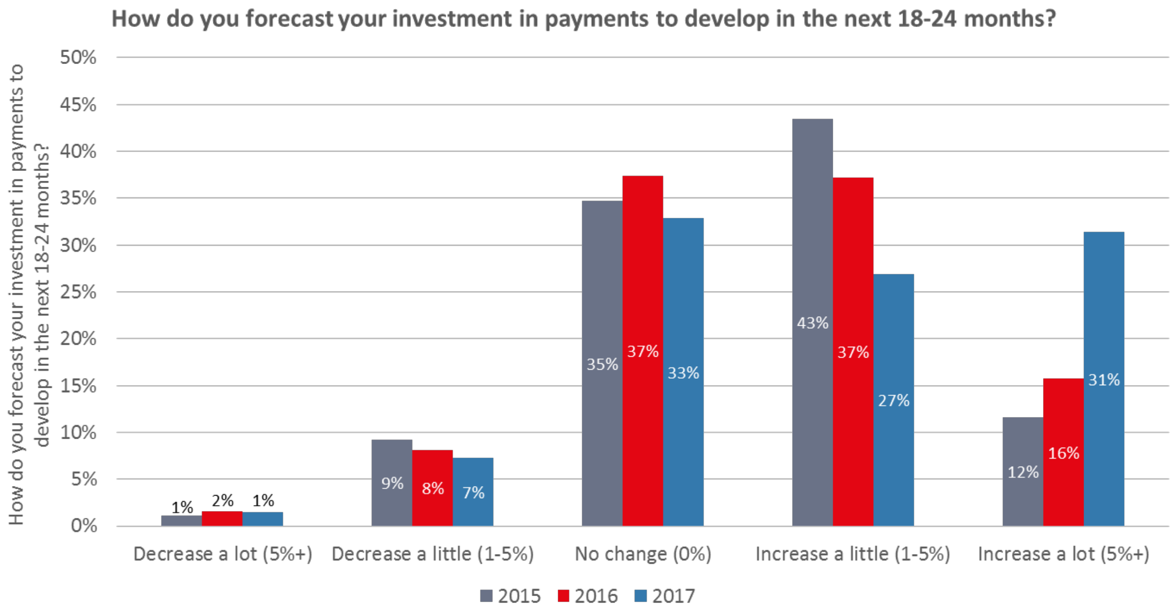
Investment levels are high across the payments landscape

The pace of payments investments is increasing year over year

The changes happening in the payments industry, ranging from the growing prevalence of electronic transactions, new digital channels, and new payment tools and services, is being felt in all corners of the market. Making the most of new payment technologies, and meeting shifting consumer expectations requires significant investment in infrastructure. As such, investment levels remain high year over year across all sectors, with no sign of any slowdown occurring anytime soon

Forecast payment investment levels reached a new high in 2017, with 58% of respondents across all sectors expecting an increase. The share of organizations increasing their investment by 5% or more has seen a sharp increase, nearly doubling from 2016 to reach 31% of all organizations. In contrast to this the proportion of organizations dropping their payments investment continues to decline. Such significant increases in payments investment is now inevitably leading to improvements in payments capabilities.

Figure 1: 31% of organizations are increasing their payments investment by 5% or more



Source: 2017 Ovum Global Payments Insight Survey

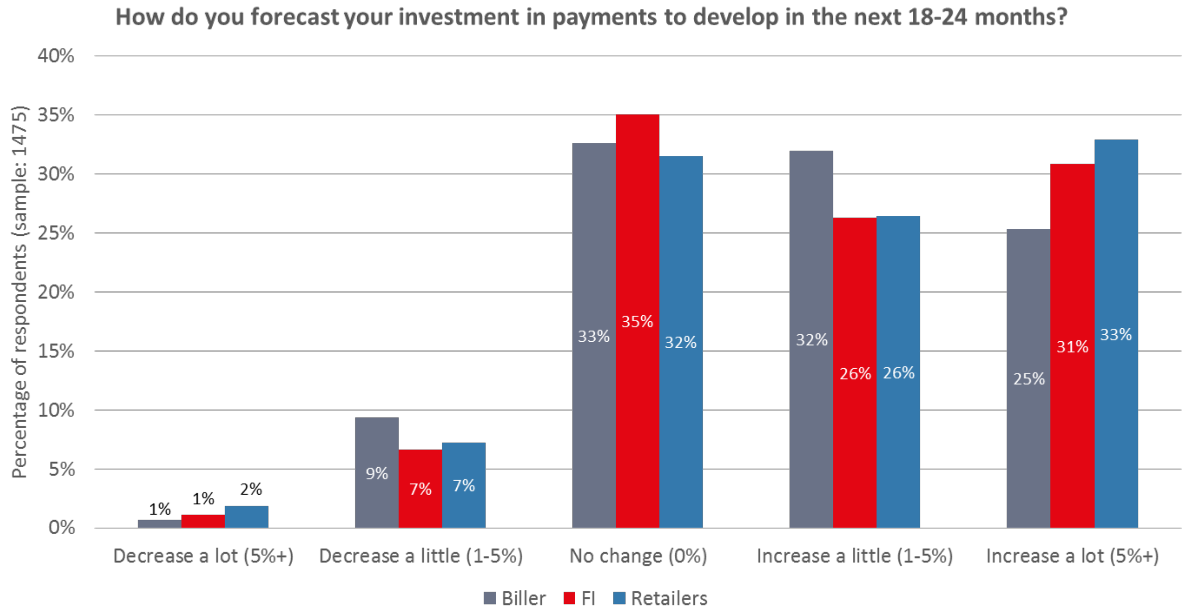
The high level of investment in payments is consistent across all sectors

Looking just at 2017, it's clear that these high levels of investment in payments infrastructure are consistent across the biller, financial institution and retail verticals, with a majority in all sectors forecasting increases. Sectors with the most competitive pressure, such as merchants show the highest level of forecast investment with 59% expecting an increase. 33% of all merchants plan a significant increase of over 5%. 58% of financial institutions also expect an increase, while billing organizations are not far off on 57%

Indicative of the ongoing nature of the changes happening in the payments space is the fact that the proportion of organizations forecasting a decrease in investment remains low, and no higher than 10% in any segment.

The continued and ongoing pace of investment across all sectors highlights the existential nature of the changes happening in the payments market as organizations of all types increasingly turn to digital transformation and omnichannel strategies. This extends far beyond simply modernizing legacy infrastructure to reimagining the broader digital customer journey.

Figure 2: 33% of retailers are increasing investment by over 5%



Source: 2017 Ovum Global Payments Insight Survey

The benefits of payments modernization are recognized, but new challenges are emerging

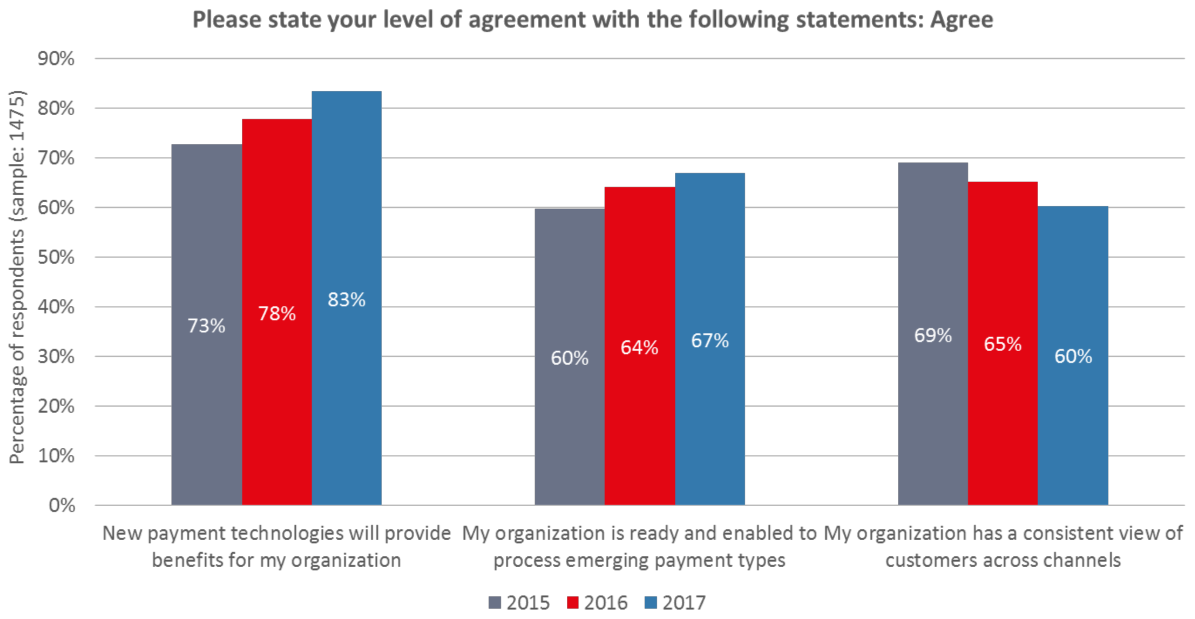
Confidence in new payment capabilities is rising but an omnichannel view of customers is becoming more difficult

The benefits of new payment technologies are increasingly recognized, with 82% of survey respondents now viewing new payment technologies as a benefit for their organization. This is an increase of over 10% from 2015 to 2017. Payments have gone from a means to an end to a critical component in how organizations reach their broader business goals.

In light of the significant investment in payments over the past several years, enterprise confidence in payment capabilities is also improving year-on-year, albeit at a slower pace than investment. Almost two thirds of organizations feel confident they are ready and enabled to process emerging payment types.

In contrast to this, organizations feel less sure that they have a consistent view of customers across channels, with the proportion of enterprises holding this view declining by almost 10% since 2015. This likely reflects the growing complexity brought on by the expanding use of digital channels. Organizations of all types continue to face growing complexity even if their payment acceptance capabilities are improving.

Figure 3: There was a near 10% drop in the proportion of organizations who felt they had a consistent view of customers across channels from 2015 to 2017



Source: 2017 Ovum Global Payments Insight Survey

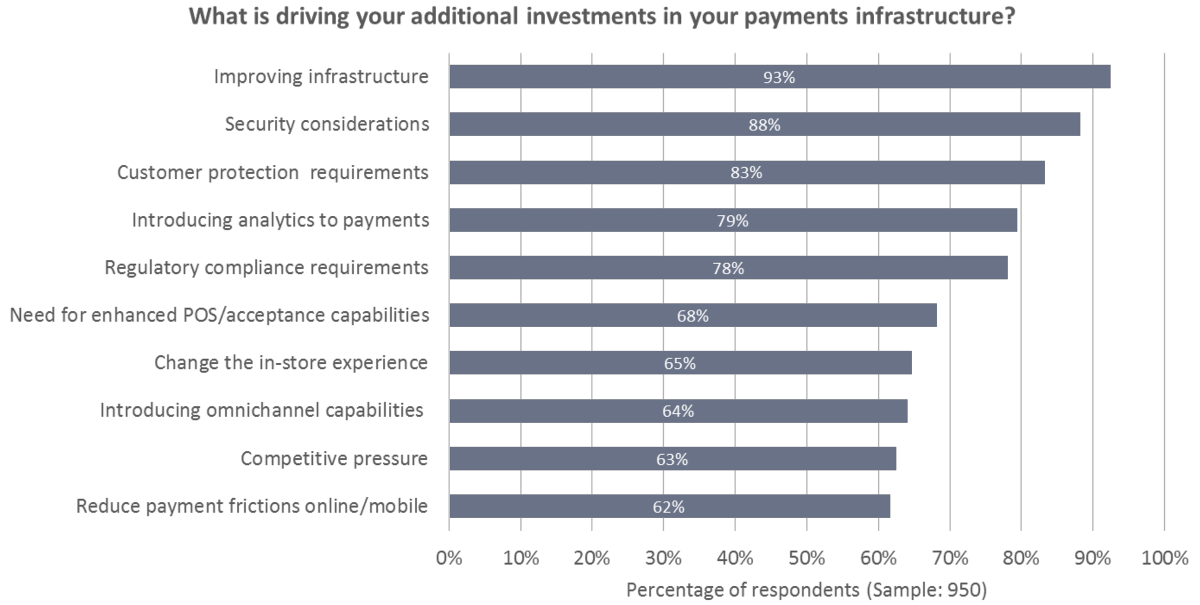
Payments infrastructure remains at the forefront of investment

Although front-end development such as payment tool acceptance and the establishment of new channels particularly in the mobile space are important, 93% of respondents across all sectors cited improving infrastructure as a key driver behind their additional payments investment. This is followed closely by security considerations (88%) and customer protection (83%). This underlines the fact that the fundamentals of payments technology remain critical for payment providers of all types and must serve as the basis of wider innovation.

More innovative aspects of payments are nonetheless still on the radar for most organizations, with 79% citing introducing analytics to payments as an investment driver, alongside enhanced POS capabilities (68%), changing the in-store experience (65%) and introducing omnichannel capabilities (64%).

All of these capabilities have the potential to change the customer experience in positive ways and introduce new organizational benefits. However the ability to execute successfully on these will be dependent on underlying payments infrastructure.

Figure 4: 93% of merchants and billers are investing to improve their payments infrastructure



Source: 2017 Ovum Global Payments Insight Survey

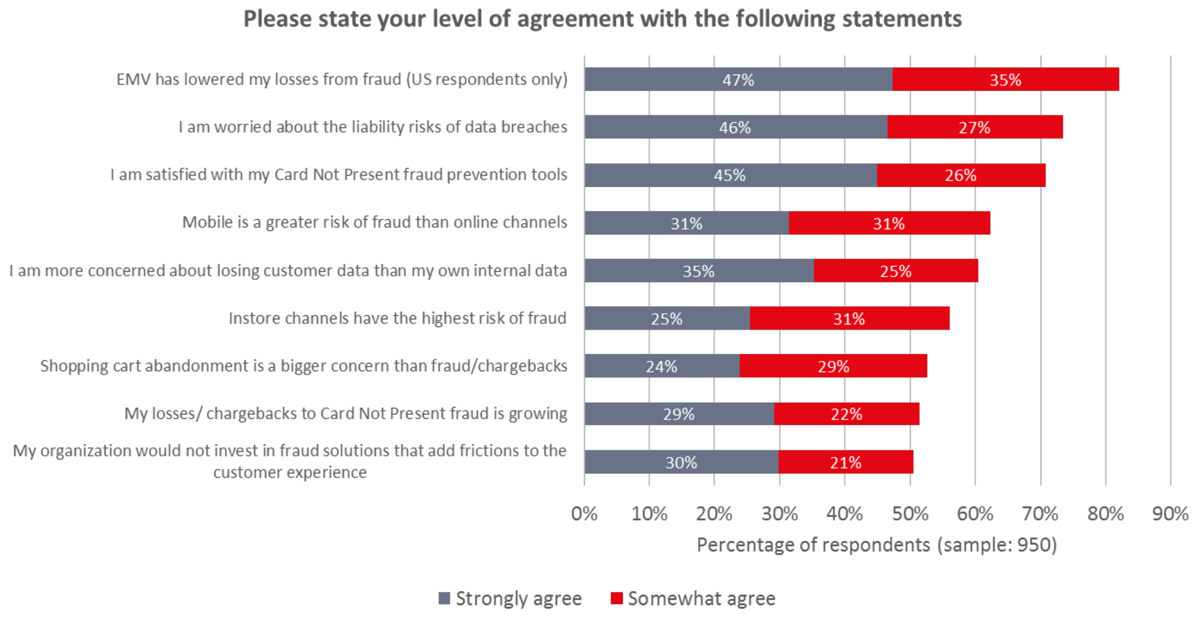
Merchants risk underplaying the threat of CNP fraud

Fraud is a perennial challenge in the payments world and the ability to correctly balance this risk against enabling transactions is ultimately something that will always be a critical component of the market. Recent major advances however in decreasing losses and charge backs to in-store forms of fraud risks leading to complacency on the growing challenges coming from card-not-present (CNP) fraud.

EMV is well established in many markets, but has had a dramatic impact on the US with a more recent (and high profile) introduction. 82% of surveyed US merchants and billing organizations report EMV has lowered their losses from fraud. This is significant given the relative newness of the technology to the region. Such success from POS security however risks leaving merchants and billers with a false sense of security as CNP losses by all indications continue to rise. Despite the fact CNP fraud rates are rising globally, and 51% here report an increase in their CNP losses, 56% of merchants and billing organizations feel in-store channels have the highest risk of fraud.

The nature of online shopping means that most organizations are faced with balancing security and the need for a frictionless checkout process. Indicative of this is the fact that 53% of organizations believe shopping cart abandonment is a bigger concern than fraud/chargebacks, and 51% report they would not invest in fraud solutions that add friction to the customer experience. Loses to CNP will undoubtedly continue to rise sharply in the near term, and organizations who become complacent stand to lose out significantly.

Figure 5: 82% of US merchants and billing organizations feel EMV has lowered their losses from fraud



Source: 2017 Ovum Global Payments Insight Survey

Organizations are seeking new ways to improve their payments capabilities

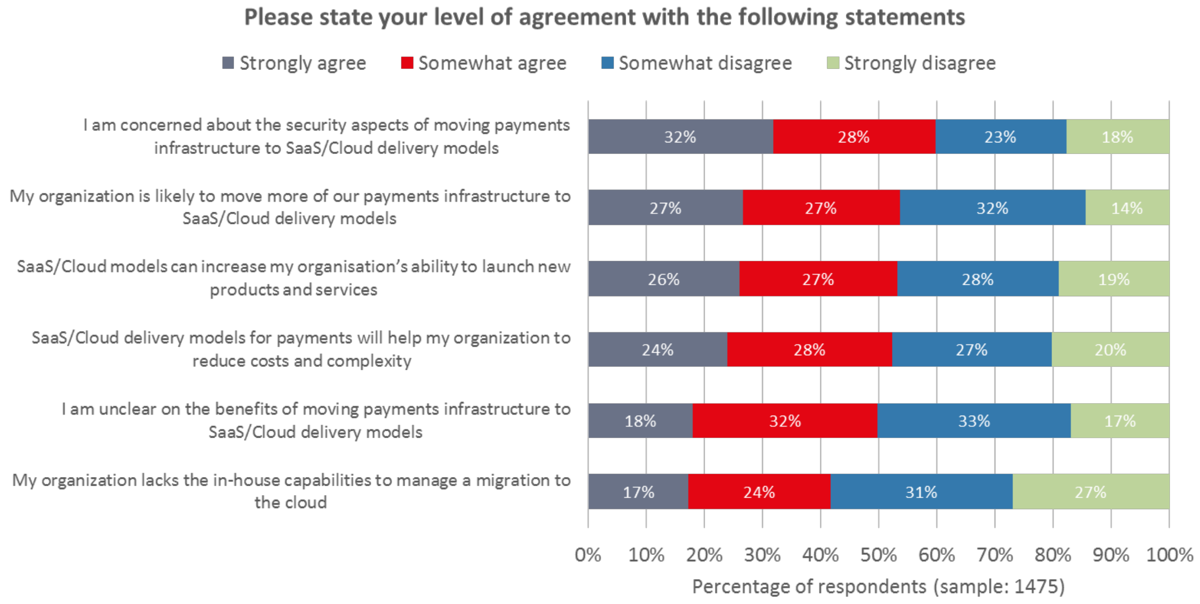
A majority of enterprises are likely to move some payments infrastructure to SaaS/cloud delivery models

As organizations of all types seek to find ways to reduce their payment costs while simultaneously improving their payments capabilities, attention is now turning to new means of delivering payments such as through SaaS/cloud delivery models. As shown elsewhere in the survey, SaaS/cloud accounts for only a small proportion of payments infrastructure in 2017, averaging close to 7% across all sectors. This low figure however is set to rise sharply with 54% of all surveyed respondents reporting they are likely to move more of their payments infrastructure to on demand delivery models.

Despite this high level of interest, there are strong concerns about security (an issue for 60% of enterprises), and many remain unclear of the benefits that SaaS can bring to their organization (50%). These concerns are likely to fade as awareness of this form of software consumption in payments becomes more entrenched and widespread. This will be helped by the fact that 53% of organizations already believe that SaaS will improve the ability of their organization to launch new products and services.

Most organizations are understandably conservative in how they deliver payments and cloud represents a major shift for the market. Given the wider benefits that SaaS can bring, particularly in terms of agility, reduced complexity, and the shift from a license to a per use cost basis, it will inevitably become a more common feature of the market in the near term.

Figure 6: 54% of organizations are likely to move to SaaS delivery for payments infrastructure



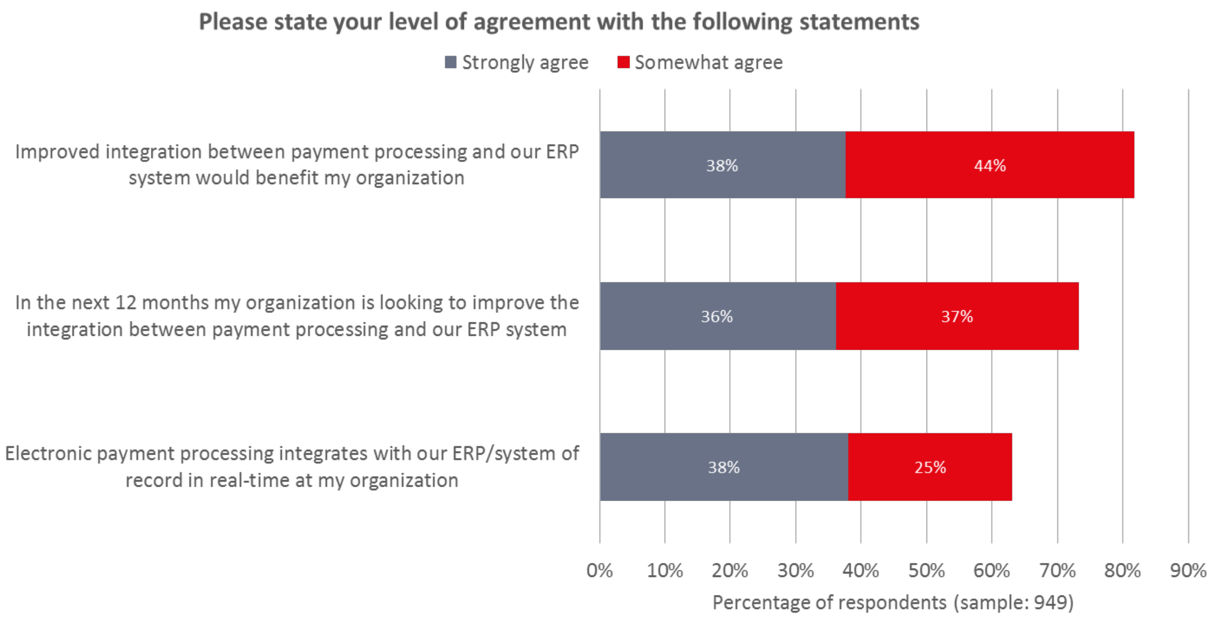
Source: 2017 Ovum Global Payments Insight Survey

Merchants and billers would benefit from closer integration between payments and ERP systems

Alongside looking at how payments are delivered, the importance of payments and transaction data is now growing across the enterprise. As organizations of all types become more data centric when it comes to their customers, there are substantial benefits to be had by enabling closer integration between payments and other areas such as ERP and CRM systems. The use of this data, particularly in real-time scenarios has the capacity to provide benefits that extend beyond simply payments itself and help to improve overall operational efficiency, with uses ranging from demand forecasting and inventory management, through to customer loyalty and marketing purposes.

Overall, 82% of organizations believe improved integration between payment processing and their ERP systems would benefit their organization. Among survey respondents, 63% of merchants and billers already integrate payment processing in real-time to their ERP systems. Despite this, 82% say they'd like to still further improve payments/ERP integration. This highlights just how critical payments is now becoming in meeting broader strategic business goals.

Figure 7: 82% of merchants and billing organizations see benefits in better payments and ERP integration



Source: 2017 Ovum Global Payments Insight Survey

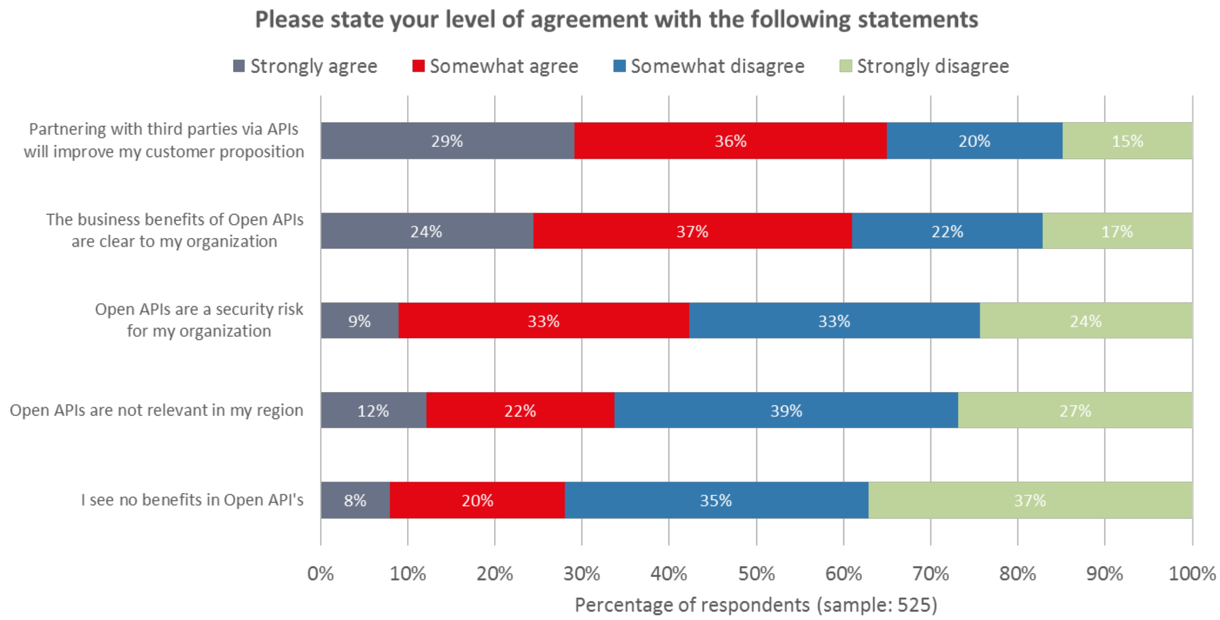
Whether regulator-mandated or not, many banks are making strategic decisions around open APIs

Within the financial services space, the market is set to see considerable changes in the near-term due to the growing prevalence of open APIs for third-party developer use. While the biggest moves in this space are largely driven by regulators, attitudes towards supporting what will become a re-shaped ecosystem and value chain are nonetheless positive. With a majority of financial institutions clear on the benefits of open APIs this suggests the market is ripe for further innovation in payments in the near-term, likely in many unexpected ways.

Among the banks surveyed, 65% believe that the partnerships with third parties via APIs will improve their customer proposition. This view is particularly strong in Europe (69%), where activity is being driven by the second payment services directive (PSD2). Nonetheless there remains a strong minority view that open APIs offer no benefits, with 28% sharing this perspective. Security also remains an important issue, and is a concern for 42% of banks when it comes to opening services to developers.

However as open API's become more common these concerns over security are likely to diminish as financial institutions and developers alike become more experienced and comfortable with open API technology.

Figure 8: Attitudes towards open APIs are positive across banks in all regions and territories



Source: 2017 Ovum Global Payments Insight Survey

Methodology

For the 2017 Ovum Global Payment Information Survey, ACI Worldwide and Ovum created a 23-point questionnaire, to understand the attitudes, plans and priorities among key stakeholders in the industry across topics including:

- Significant aspects of existing payments infrastructure
- Forecasts for spending
- Areas for investment
- Perceptions of where payments fit within their broader strategic objectives

Key payments decision makers globally were then surveyed in December - January 2016/17, providing a snapshot of payment perceptions amongst financial institutions, merchants, scheduled payment-taking organizations such as higher education, consumer finance and insurance.

Overall, this included a total 1,475 executive respondents across 13 industry sub verticals in 18 key global markets, resulting in over 197,000 separate data points on perceptions and expectations of payments amongst critical payment enablers globally.

This global perspective focuses on the overall survey findings. Those interested in finding out more detail about the billing organization, merchant, and financial institution findings are advised to visit www.aciworldwide.com/paymentsinsight for further information.

Respondent Breakdown	
Total Respondents	1,475
Respondents by Region	
Americas	43.5%
EMEA	28.2%
Asia Pacific	28.3%
Sub-verticals surveyed	
Billing Organizations	
Higher education	
Insurance (personal, insurance, auto)	
Consumer finance (e.g. automotive loans)	
Government (includes municipal utilities)	
Healthcare services	
Utilities (investor owned, private)	
Merchants	
General merchandise (includes fashion, electronics, health & beauty, FMCG, etc.)	
Travel & lodging	
Fuel/convenience stores	
Grocery/supermarket	
Food service/cafes/restaurants	
Financial Institutions	
Retail banking	
Merchant acquiring	
Example Respondent Titles	
Director, Global Corporate Payments, Chief Operations Officer, Finance Director, Revenue Manager, Owner, etc.	

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