

2018 Global Payments Insight Survey: Cross-vertical

Investing in the future of the customer experience

Catalyst

To succeed in a rapidly changing environment, enterprises need to invest in the foundations for future innovation

The payments market is changing, and with it the operating environment for enterprises in all industries. Across the value chain, organizations are investing in new technology as they adjust to shifting market conditions and consumer expectations. For many, these investments are necessary to respond to short-term changes, but in a large number of cases, these decisions also form part of longer-term digital transformation plans. The decisions that are made in the coming years will be huge determinants of both the shape of future value chains and the businesses that participate in them.

Investments in payments technology and services have become integral to these short- and long-term plans. The need to support changing consumer preferences to transact via digital channels remains a major driver of change, particularly because of the increasing expectation that payment services will become a deeply embedded and largely invisible part of the digital customer experiences of tomorrow.

This creates its own challenges of course, particularly in delivering on customer expectations while still managing to invest in the necessary back- and middle-office improvements. For many organizations, these investments will be key components of the underlying infrastructure needed to deliver the

next wave of organizational change and customer-facing innovation.

To understand the evolution of the landscape, technology analyst house Ovum, in conjunction with ACI Worldwide, has conducted its annual Ovum Global Payments Insight Survey. First run in 2015, 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 their payment services and how these are shaping their investment and development activity for the year ahead.

This report presents analysis of the pain points and investment priorities of retail banks, merchants, and billing organizations in combination. As such, it offers insights into what is driving the agenda for both the payment-enabling and payment-accepting elements of the value chain, in turn providing a clear perspective on precisely where and how the industry will see the greatest innovation and change in 2018.

This is one part of a four-part series based on Ovum's 2018 survey. Those interested in the reports focusing on merchants, billing organizations, and retail banks should visit <https://www.aciworldwide.com/lp/payments-insight-2018> for further information.

Summary

When it comes to shaping their IT strategy around payments and related functional areas, enterprises in all verticals face a number of important challenges. Nevertheless, they boil down to one central issue: how to succeed in today's highly complex operating environment while also investing for the future.

Indeed, the need to deliver on growing expectations around the user experience, alongside delivering operational efficiencies, will see businesses in all verticals continue to invest heavily in payments technology in 2018.

This report examines these issues, drawing on the results of Ovum's 2018 Payments Insight Survey.

Key findings include the following:

- 51% of all merchants, billing organizations, and retail banks will increase their IT budgets for payments-related projects in 2018, with over a fifth increasing spending by 5% or more on 2017 levels.
- Growth will be strongest in the Americas, with 56% of enterprises increasing payments IT investment. In contrast, those in Europe are more likely to see investment hold flat on 2017.
- For merchants and billers, the emphasis remains on improving the customer experience, with greater personalization an important objective.

The rollout of new real-time payment (RTP) infrastructure in 2017, most notably in the US, Australia, and the SEPA zone, has driven a

marked change in attitudes. Where it was once seen as a regulatory-mandated compliance project, it is becoming more widely viewed as the foundation of a wave of new customer-facing enhancements.

- 86% of banks are now either experiencing or expecting to see improvements in their customer service, up from 61% in 2017.
- This view is also held by 82% of billing organizations (up from 48% in 2017) and 78% of merchants (up from 59%).
- At regional level, merchants, retail banks, and billing organizations are most positive about real-time payments, with 84% expecting customer service improvements and 81% benefits around operating costs.

Attitudes around open banking have also changed dramatically in the past 12 months, driven by the rapid growth activity in Europe in particular.

- 87% of all banks report that they have a clear strategy for developing open APIs, up from 59% in 2017.
- 76% of merchants and 74% of billing organizations report that they have a clear strategy to leverage the customer data and other services that are becoming available through open banking.
- At a global level, 78% of banks, 72% of billing organizations, and 68% of merchants believe that the combination of real-time payments and open banking will see the importance of payment cards decline over time.

Recommendations

Despite the global nature of the factors driving change in the industry, the impact on individual enterprises will depend on their specific market challenges, existing technology stack, wider business strategy, and development roadmap.

Nevertheless, the findings in this study highlight some important steps that all should consider to ensure that they are prepared to meet today's challenges and take advantage of the opportunities for the future.

- **Enterprises should view their core payments infrastructure as the foundation for future front-office product development, and invest accordingly.** The pace of change in the payments industry, driven by a range of developments in consumer technology, changing purchasing habits, new entrants, and – more specifically to the payments industry – open banking and real-time payments, is rapid, and all organizations must continue to develop their core infrastructure in order to remain competitive. While there remain opportunities for point solutions to address specific issues, prioritizing investments in core platforms and infrastructure will become increasingly important; not least in providing the foundation for greater agility and innovation in future product development and enhancements to the customer experience.
- **Ensure that investments in security enhance the customer experience.** The growing risk of fraud and other forms of financial crime means that security remains high on the agenda. When making these investments, every opportunity should be taken to use more sophisticated authentication and monitoring technology to continue to improve the balance between fraud risk and a friction-free user experience.
- **Plan for, and take advantage of, the benefits of real-time payments infrastructure.** As experience is now showing, real-time payments can bring a number of direct operational benefits to retail banks, billing organizations, and merchants, while also enabling customer service enhancements in specific use cases. Ensure that you are aware of these opportunities and invest in the infrastructure to take advantage. For banks, this will involve embracing the potential for service improvements across the wider banking experience, while merchants and billing organizations will need to consider updating or changing development roadmaps as well as looking to their banking and/or acquiring partners to unlock these benefits.

Businesses across all sectors will continue to invest in their payment capabilities in 2018

Delivering greater efficiency, alongside innovation, will drive the IT agenda for enterprises in 2018

The need to deliver on growing expectations around the user experience, and to do so in an increasingly competitive environment, will see enterprises in all sectors continue to invest heavily in payments technology in 2018.

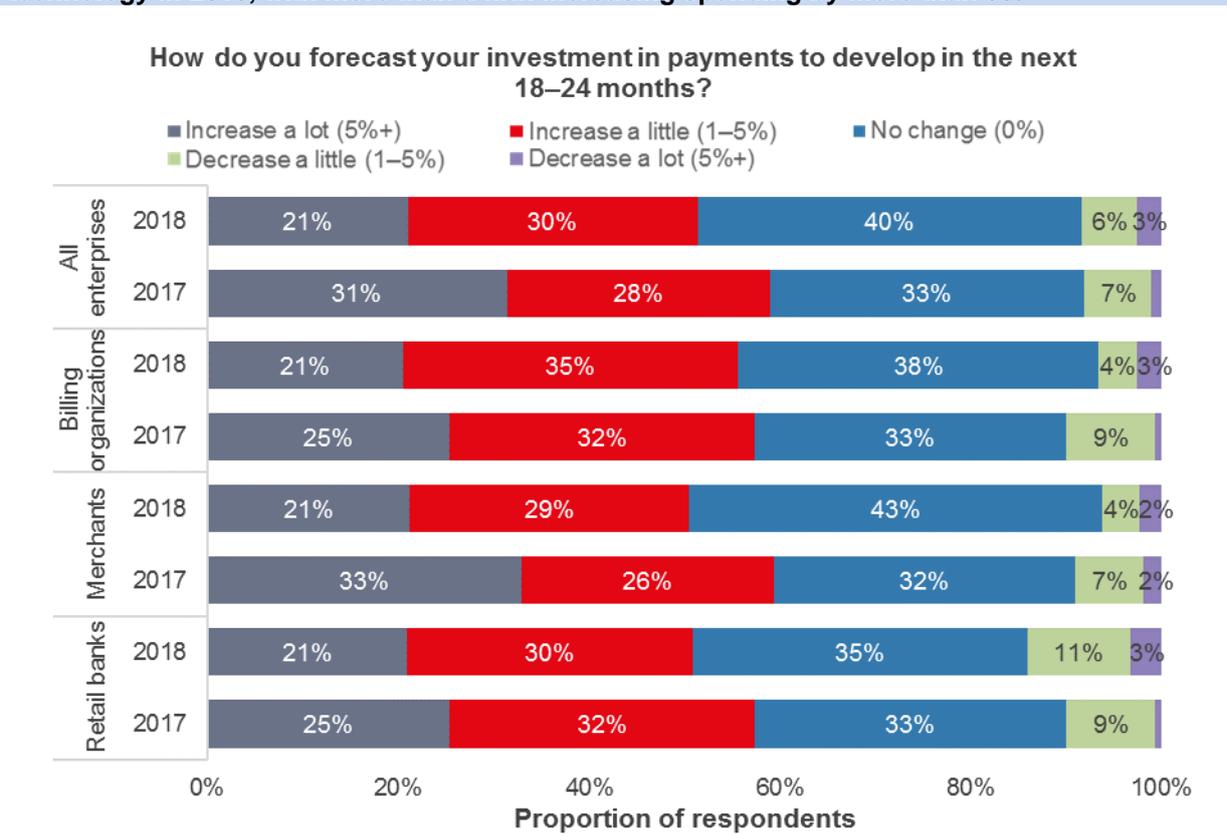
At a global level, 51% of all merchants, billing organizations, and retail banks will increase their IT budgets for payments-related projects in 2018, with over a fifth increasing spending by 5% or more on 2017 levels. While this represents a decline on the 59% increasing budgets in 2017, this nevertheless reflects the fact that many are continuing to make

additional investments year on year to deliver enhancements across their technology stack.

Billing organizations are most likely to increase spend, with 56% increasing IT investment in 2018, compared to 51% of retail banks and half of all merchants. In contrast, only 9% of enterprises plan to reduce their IT investments around payments.

From a regional perspective, the Americas (56% of enterprises increasing payments IT investment) and Asia (55%) will lead the way, with those in Europe more likely to see investment hold flat on 2017 levels.

Figure 1: Over half of all organizations plan to increase their investment in payments technology in 2018, with more than a fifth increasing spending by more than 5%



Source: 2018 Ovum Global Payments Insight Survey

The focus for many organizations will be striking the balance between service innovation and operating efficiencies

While each enterprise determines its IT strategy based on the specific conditions it faces, there are strong themes leading the investment agenda at industry level.

It is no surprise to see security and regulatory compliance as core projects for retail banks in 2018. In addition, the need to deliver greater operating efficiencies through reducing total cost of ownership (TCO) is also a leading priority for 40% of institutions, rising to 48% among those banks in Europe. However, the focus on these areas does not mean that direct enhancements to the customer experience are low priority; in many cases, improvements to security and back- or middle-

office systems deliver (and are conceived to bring) positive outcomes for customers.

Among merchants and billing organizations, there is a clearer balance between "run the business" and "grow the business" priorities, with an enhanced cross-channel customer experience high on the agenda for both sectors. While merchants are also prioritizing investments in back-office efficiency and their payment acceptance capabilities, it is particularly noteworthy to see the importance attached by billing organizations to embracing the potential of social media and chat apps as customer contact and (in some cases) transactional channels.

Figure 2: While 2018 will see retail banks focus heavily on security and operational efficiencies, merchants and billing organizations plan to further enhance the user experience



Source: 2018 Ovum Global Payments Insight Survey

Personalization and "invisible" payments are the most important improvement areas for merchants and billings organizations

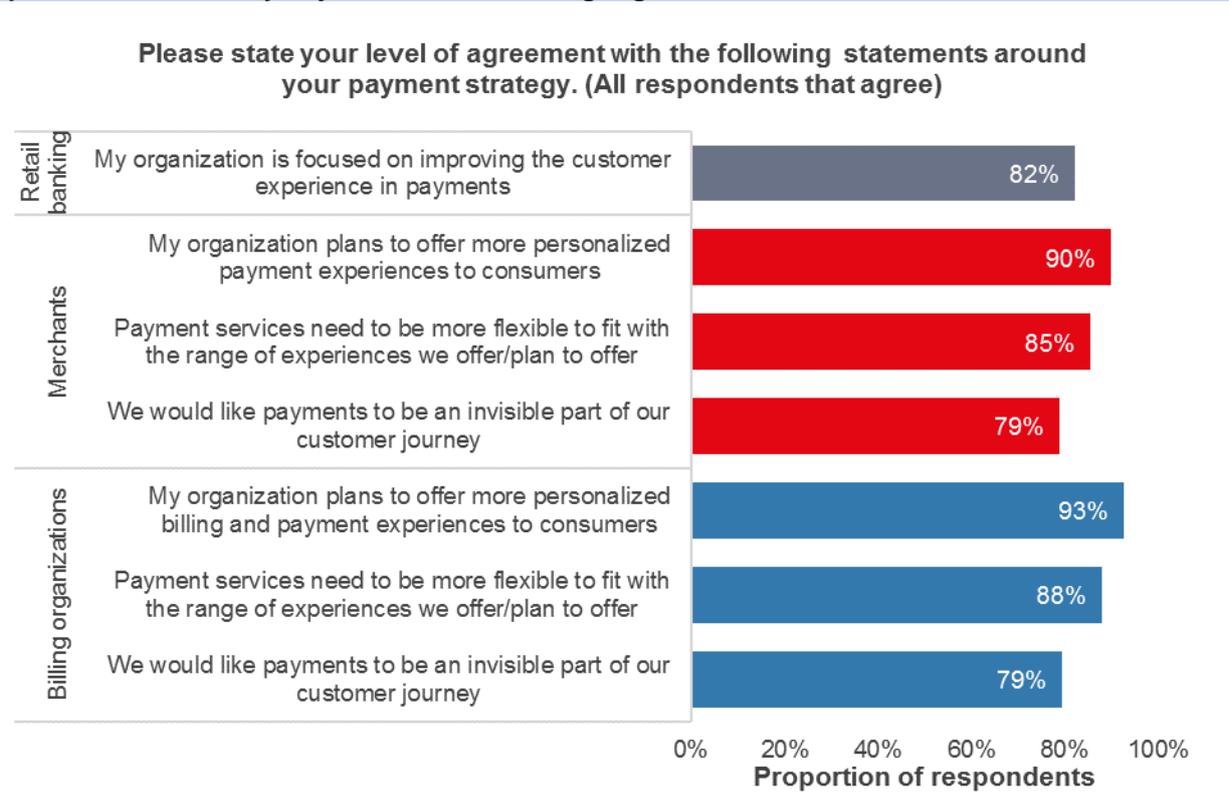
Personalization and a continued focus on making payments a more integrated (and ultimately invisible) part of the customer journey remain the core areas of emphasis for both billing organizations and merchants.

At a global level, over 90% of both groups will continue to invest in projects to add greater personalization into the customer experience, pointing to rapid developments in this space. At the same time, the need for greater flexibility in the payment services these organizations consume (a priority for 88% of billing organizations and 85% of merchants) is a clear enabling step and an area that will create opportunities for banks and the wider

acquiring and payment processing ecosystem to support these needs.

The customer experience remains high on the agenda for banks too, with 82% of all banks and 91% of those in Asia reporting that this is a focus area for their institution. For many institutions, this will require investments to remove friction from the customer experience, particularly the authentication process and the integration with third-party payment services. Unsurprisingly, given the impact this can have on wider customer journey improvements and incremental sales, this is also a core priority for 79% of both billing organizations and merchants.

Figure 3: There remains a very clear focus on improving the customer experience, with greater personalization a key objective for both billing organizations and merchants



Source: 2018 Ovum Global Payments Insight Survey

Many organizations are enjoying the benefits of lower operating costs as a result of deploying off-the-shelf vendor solutions

Delivering efficiency and reducing TCO are clear priorities for businesses around the world, not least because it frees up resources for investment in customer-facing enhancements. There are clear signs that the adoption of off-the-shelf vendor solutions is enabling many to deliver on these objectives.

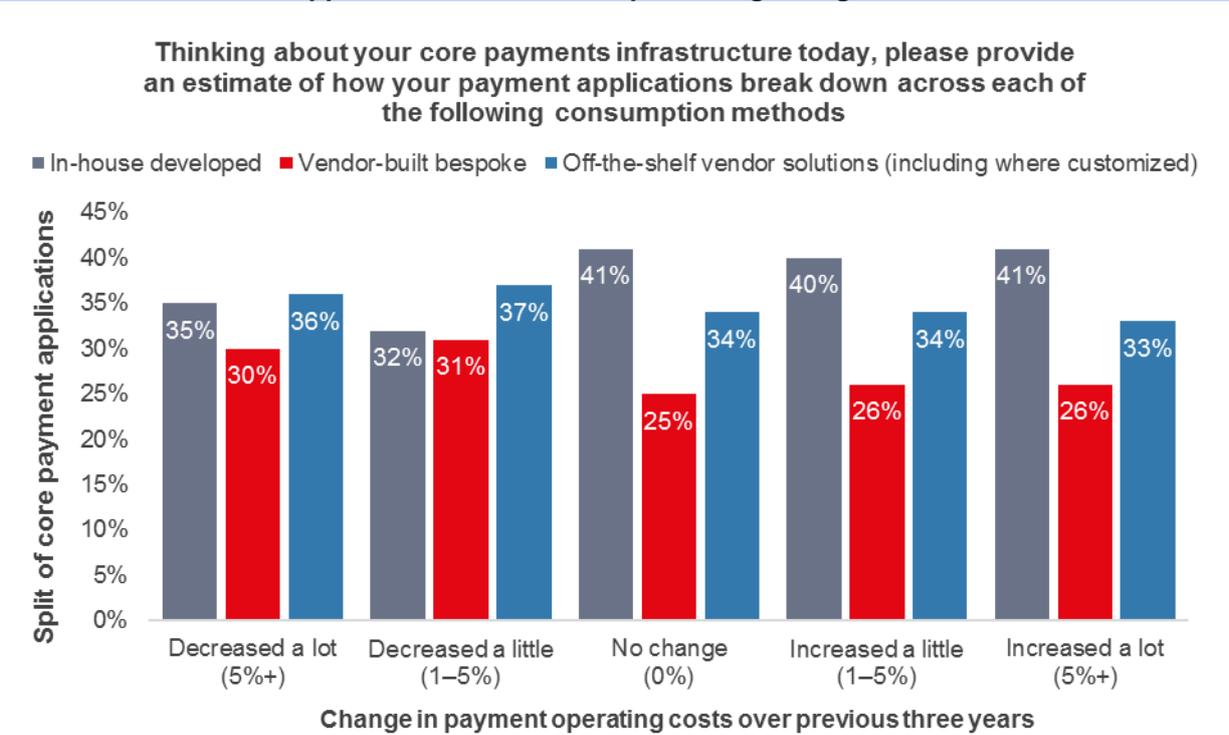
Across all enterprises, 44% of organizations reported that the operating costs of their payments business had increased over 2014–17, while 13% had experienced a decline. This has been particularly acute in Asia, where 47% of banks and 46% of merchants report cost growth.

Analysis of the underlying payments architecture of both merchants and retail

banks at a global level (billing organizations are excluded here, as Ovum's research was focused only on the Americas region) shows that those enterprises that have experienced the largest reductions in payment operating costs also report the lowest use of internally developed payment applications.

Organizations that have seen their costs fall by 5% or more report that 36% of their core payment applications are off-the-shelf vendor products (including where customized in deployment) and 35% are in-house developed. Among those that have seen the highest cost growth, internally developed software accounts for 41% of their infrastructure.

Figure 4: Businesses that have seen the operating costs of their payments business decline run more vendor-built applications than those experiencing cost growth



Source: 2018 Ovum Global Payments Insight Survey

Security remains a core challenge across the market

Over one in five merchants and billing organizations report that they have suffered a data breach in the previous year

Security is high on the agenda for organizations in all sectors, and remains an important driver of investment and enhancement projects around core payment infrastructure. As discussed earlier, this is particularly important for retail banks, among whom 44% cited the need to fund projects in this area as one of the leading factors driving growth in their IT budgets for 2018.

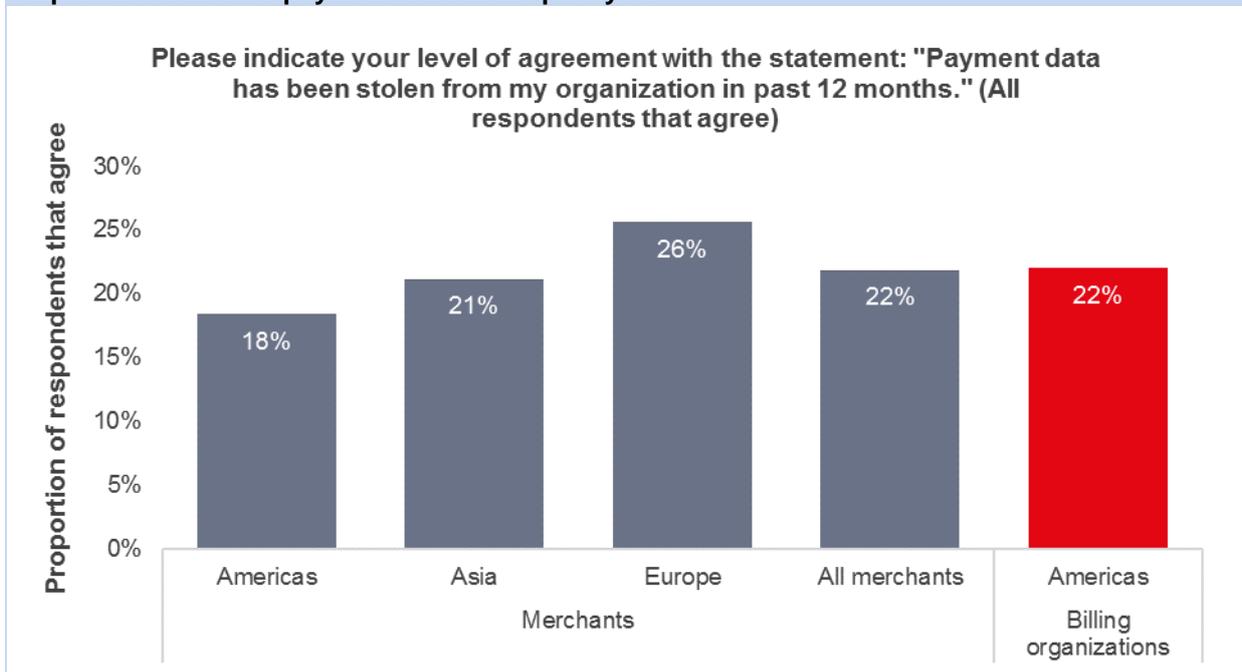
Maintaining data security is also a priority for merchants and billing organizations, remaining an important focus area. In many cases, this is driven by recent experiences of fraud or data breach, with 61% of merchants believing they are at a greater risk of a data security breach than a year ago, and 22% stating that they had

experienced theft of payment data in the same timeframe (of which they are aware).

The impact has been most keenly felt in Europe, where over a quarter (26%) of merchants say they have experienced data theft. At the sector level, the hospitality sector has been the most heavily affected, with 29% of companies having been impacted.

Billing organizations have experienced a similar level of data breach to merchants, with 22% also reporting incidents. Interestingly, far fewer (36%) believe their risks today are greater than in 2017, in many cases reflecting the impact of intensive security investments (such as EMV in the US) in recent years.

Figure 5: More than one in five merchants and billing organizations report that they have experienced theft of payment data in the past year



Source: 2018 Ovum Global Payments Insight Survey

Real-time payments are at the heart of future product and service enhancements

The past year has seen a step change in attitudes to real-time payments

The rollout of new real-time payment (RTP) infrastructure in 2017, most notably in the US, Australia, and the SEPA zone, has driven a marked change in attitudes to this topic.

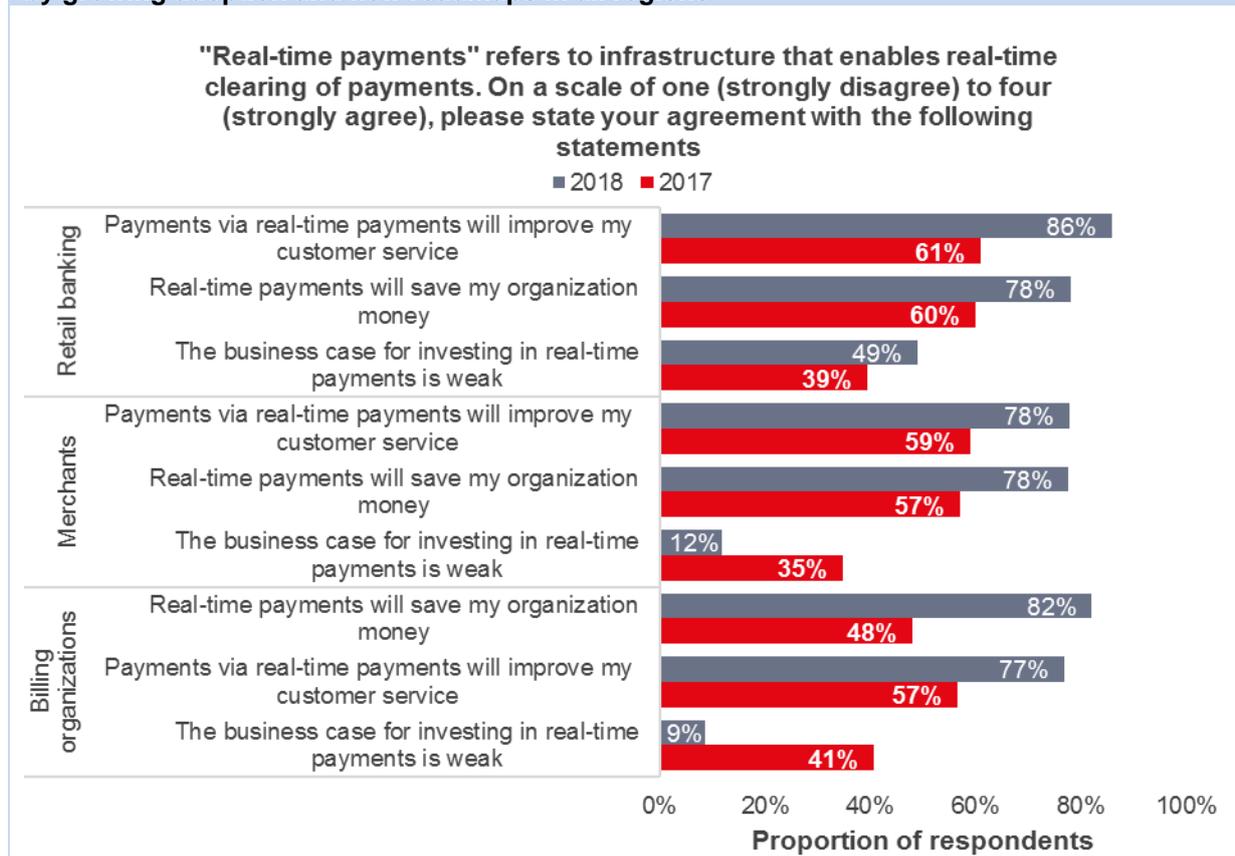
Indeed, the market as a whole can now be said to have reached consensus on a number of areas, and as a consequence, real-time payments are now key to planned enhancements to the customer experience for the majority of retail banks, billing organizations, and merchants. Over three in four organizations expect – or are

experiencing – customer service gains from real-time payments.

Many organizations also expect to enjoy operating efficiencies, with 78% of banks and merchants and 82% of billers expecting to see cost reductions due to real-time payments.

Interestingly, while there is consensus on the strength of the business case for those accepting payments, close to half of all banks view this as weak. However, this largely reflects the regulatory-driven nature of the majority of national infrastructure projects.

Figure 6: Attitudes toward real-time payments have seen a step change inside a year, driven by growing adoption and new roadmaps in all regions



Source: 2018 Ovum Global Payments Insight Survey

While attitudes to real-time payments are positive in all regions, those in Asia are particularly keen to deliver customer benefits

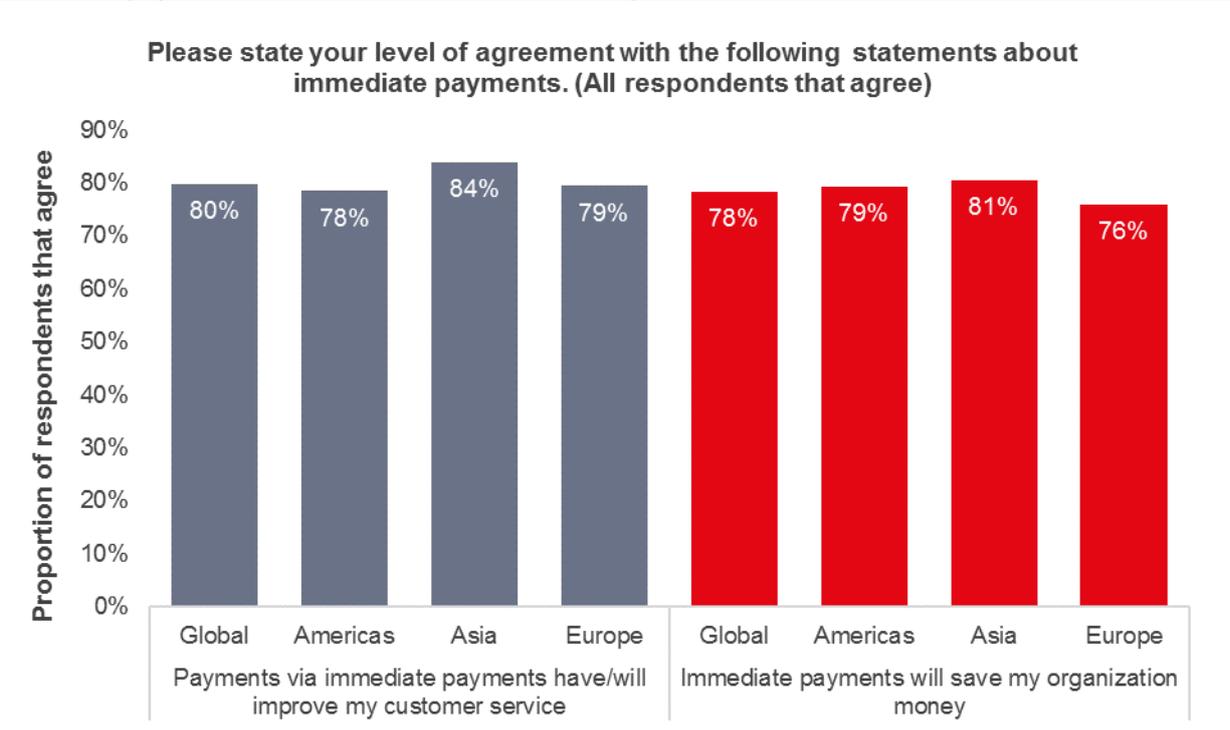
Driven by the degree to which real-time payments (RTP) has become central to the global conversation in the payments industry, there is now a high degree of consistency across all markets when it comes to the understanding and expectations around this infrastructure.

At a regional level, there are now relatively few differences in expectations around the potential for RTP to deliver both customer service benefits and cost savings. Attitudes in Asia are particularly positive, no doubt driven by the recent go-lives in Singapore and Australia, as well as discussions around a pan-regional ASEAN project. Indeed, 87% of retail banks in Asia expect to deliver an improved customer service as a result of RTP.

While there is little variance among specific sub-segments, government agencies, retailers, and the telecoms sector are the most positive about the potential benefits to their end customers. However, there are important differences when it comes to the size of organization, with the largest enterprises more likely to have identified potential gains.

At a global level, 92% of those merchants and 85% of billing organizations with annual revenues greater than \$5bn expect to see customer service improvements as a result of real-time payments. Nevertheless, three-quarters of all businesses below that size also expect to enjoy benefits. For the banking industry, this highlights a clear need to focus on propositions and messaging to showcase the opportunities for businesses of all sizes.

Figure 7: While businesses in all regions are now in agreement on the potential benefits of real-time payments, those in Asia are even more positive



Source: 2018 Ovum Global Payments Insight Survey

Open banking initiatives are set to reshape the value chain and competitive landscape

While Europe is ahead of the rest of the world, open banking is now a global phenomenon

Alongside real-time payments (and with the exception of distributed ledger technology), the second major issue dominating debate in the payment industry today is open banking.

As with real-time payments, attitudes have changed rapidly in the past 12 months, and the explosion of activity in this space – catalyzed by PSD2 in Europe – has made it a key strategic initiative in many banks.

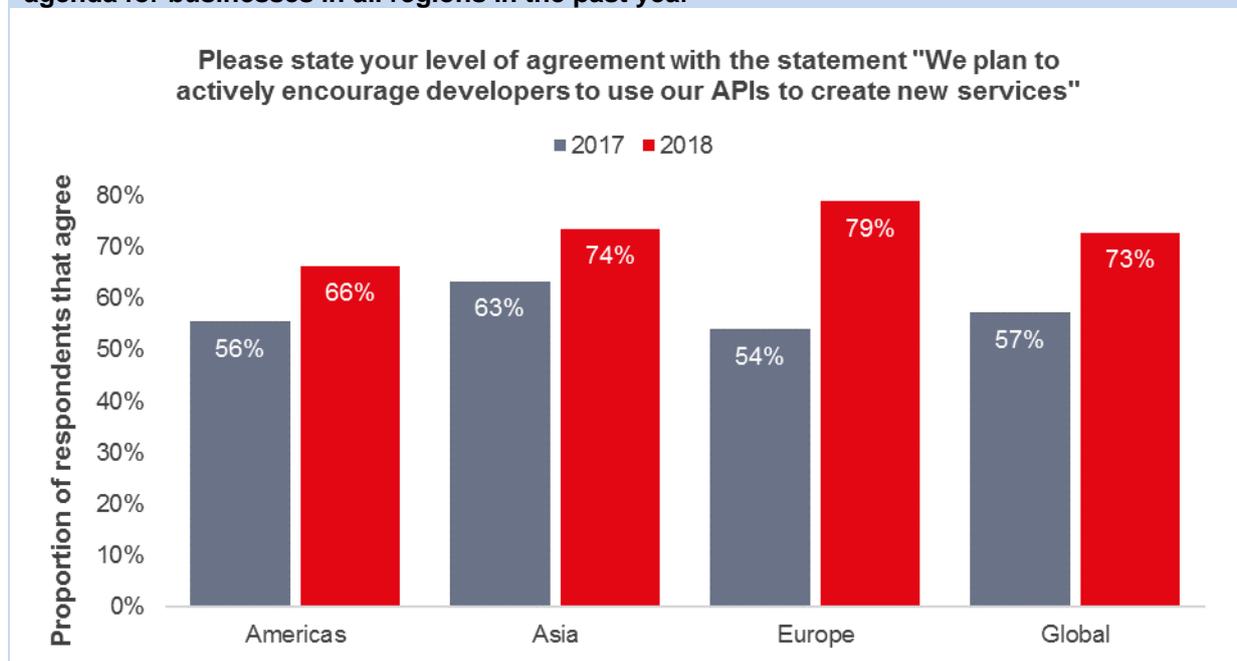
However, while Europe leads the way in terms of activity around open banking, this is by no means a trend that is limited to one region. Indeed, 87% of all banks (92% in Europe) report that their organization has a clear strategy around creating open APIs for third-party use – a marked increase on the 59% of banks that held this view only a year ago.

In order to understand where meaningful change is likely to occur, it is worth focusing on where banks are planning to actively encourage developers to work with their APIs and customer data through developer portals and sandbox environments.

Banks in Europe have the most proactive mindset, with 79% reporting that they have plans to actively encourage the use of their APIs. Perhaps more interestingly, given that this is rising up the regulatory agenda in the region, 74% of banks in Asia are putting plans in place to support third-party developers.

The Americas is slightly behind, although it is worth noting that 70% of US banks are also planning moves here, heralding significant change ahead.

Figure 8: Led by developments in Europe, the topic of open banking has risen up the strategic agenda for businesses in all regions in the past year



Source: 2018 Ovum Global Payments Insight Survey

As with real-time payments, businesses in a range of verticals are interested in the potential benefits of open banking

As with real-time payments, this is no longer a topic of conversation that is limited to just the financial services community; open banking initiatives are high on the agenda among merchants and billing organizations.

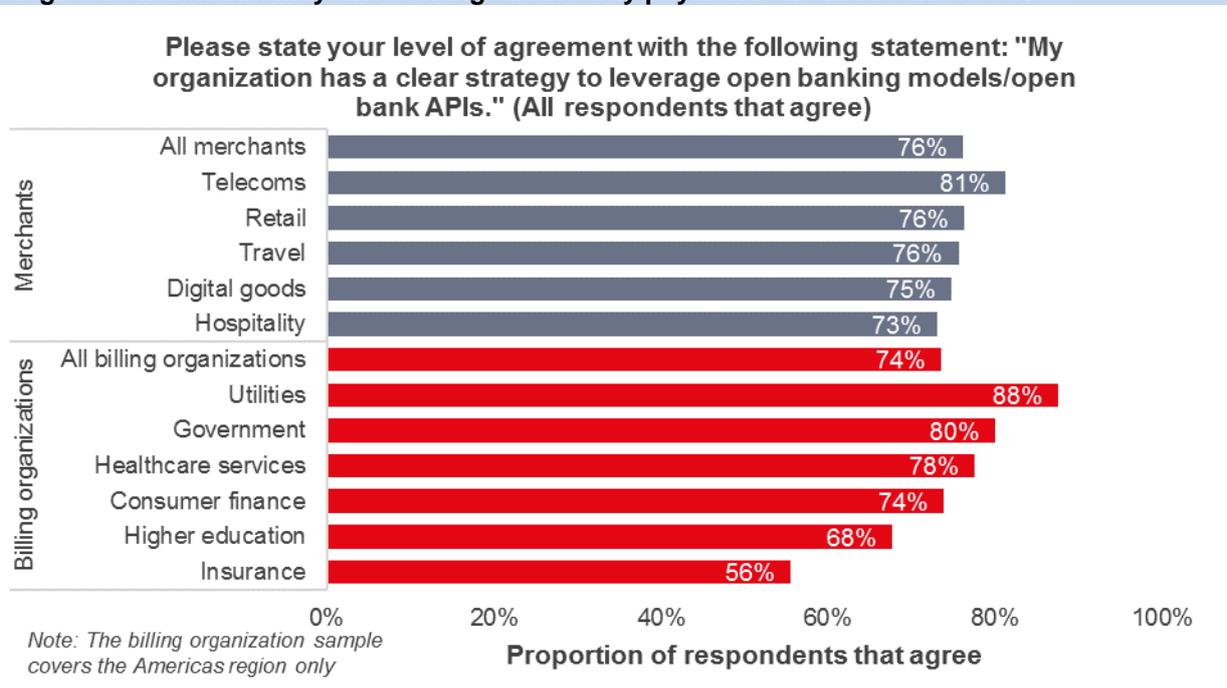
Indeed, 76% of merchants and 74% of billing organizations report that they have a clear strategy to leverage the customer data and other services that are becoming available through open banking initiatives. This rises to 78% of merchants in the Americas, with those in Latin America particularly interested.

While in some cases this strategic intent reflects some businesses taking a conscious "wait and see" approach, this level of engagement highlights the current thinking around how open banking may change the way payments are made and received.

At vertical level, it appears that open banking is of particular interest to billing organizations in the utilities, government, and healthcare sectors. There are many ways in which transactional data, balance information, and even payment initiation services can add value to both the enterprise and customer journey, and it is clear that some strong use cases may emerge in these segments.

Among merchants, there is little difference in appetite for open banking at business sector level, with around three-quarters of all organizations having shaped at least a preliminary open banking strategy. The telecoms sector shows a particular interest, perhaps reflecting the dual retail and billing elements to the business models of the large carriers.

Figure 9: Attitudes toward open banking are positive across all verticals, highlighting the degree to which this may drive change in the way payments are made and received



Source: 2018 Ovum Global Payments Insight Survey

Over time, banks and merchants expect the combination of real-time payments and open banking to eat into card volumes

While there is a particular focus on the impact that real-time payments and open banking will each have on the industry in isolation, these two initiatives in combination have the potential to have a major impact on the retail payments space. Particularly in cases where payment initiation APIs exist, the potential for merchants to enable their customers to push cleared funds in real time has the potential to significantly challenge payment card volumes.

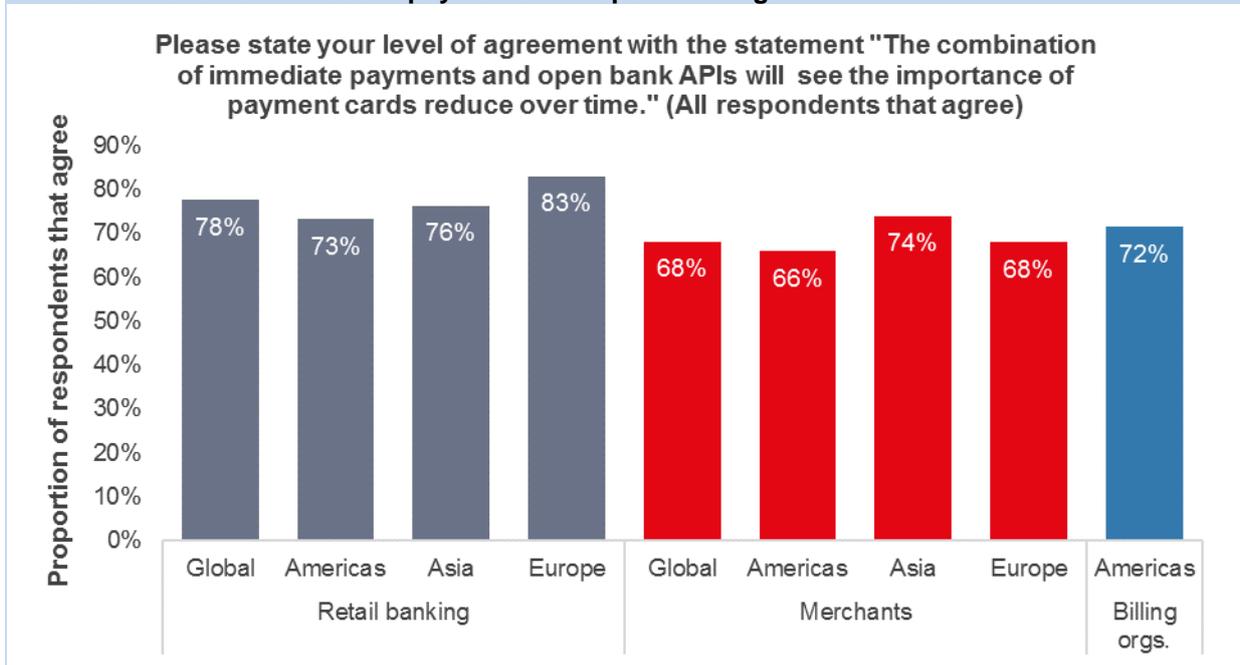
This is a view that is strongly held across the ecosystem. At a global level, 78% of banks, 72% of billing organizations, and 68% of merchants hold the view that the combination of RTP and open banking will see the importance of payment cards decline over time. This is a perspective held by 83% of banks in Europe, which is particularly significant given the regulatory mandate for payment initiation APIs.

Also noteworthy is the level of interest in Asia, with 76% of banks and 74% of merchants agreeing with this perspective. Given some of the innovations across that region, with QR codes in particular, this could be potentially significant.

At country level, 90% or more of banks in France, Belgium, Singapore, and the UK agree with this perspective, and – perhaps most surprisingly – 65% of banks in the US.

While it takes time for consumer behavior around payments to change, the potential upsides for merchants, and for e-commerce merchants in particular (from reduced chargebacks as well as acquiring fees), would create a powerful case to incentivize the change. Indeed, Ovum forecasts that 29% of the value of European e-commerce will go across real-time payment rails by 2027.

Figure 10: Over time, banks and merchants expect to see card volumes put under pressure by the combination of immediate payments and open banking



Source: 2018 Ovum Global Payments Insight Survey

Appendix

Methodology

For the 2018 Ovum Global Payments Insight Survey, Ovum and ACI Worldwide partnered to run a 22-question survey across a global panel of respondents, with a focus on retail banks, billing organizations, and merchants.

The aim of the survey was to understand the current attitudes, business objectives, and operational pain points facing each respondent company, in turn creating a unique viewpoint on the role that investments in payments technology will play in underpinning both the immediate and future objectives of each institution.

The survey focused on the following topics:

- IT investment plans around payment services
- Core business objectives and priorities
- Attitudes toward fraud and security
- Payment systems architecture
- Plans and experiences around both open banking and real-time payments

Fieldwork ran between December 2017 and January 2018, providing a clear insight into current thinking in the industry across financial institutions, merchants, and billing organizations such as higher education, consumer finance, and insurance.

This included a total 1,032 executive respondents across 13 industry sub-verticals in 19 countries, resulting in over 225,000 separate data points on current perceptions and investment plans around payments technology on a global basis.

This paper focuses on the survey findings for all three of the industry verticals combined. Those interested in finding out more detail about the retail bank, merchant, and billing organization findings are advised to visit <https://www.aciworldwide.com/lp/payments-insight-2018> for further information.

In addition, any readers who would like to access the findings from the cross-vertical report from Ovum's 2017 Payments Insight study can find that report [here](#).

Respondent breakdown	
Total respondents	1,032
Respondents by industry vertical	
Billing organizations	151
Merchants	604
Retail banks	277
Respondents by region	
Americas	502
Europe	350
Asia	180
Example respondent job titles	
CIO, IT Director, Global Head of Payments, Head of Operations, Head of Retail	

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We hope that this analysis will help you make informed and imaginative business decisions. If you have further requirements, Ovum's consulting team may be able to help you. For more information about Ovum's consulting capabilities, please contact us directly at consulting@ovum.com.

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