

2018 Global Payments Insight Survey: Retail Banking

Catalyst

To succeed in a rapidly changing environment, retail banks 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 many 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 both 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 focuses on retail banks, and highlights some of the key findings from the fourth year of this research. It provides an analysis of the views and plans of this part of the value chain, as well as a sense of how these perspectives have changed over time. It 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 a broader market overview should visit

<https://www.aciworldwide.com/lp/payments-insight-2018> for further information.

Summary

Retail banks are facing a number of important challenges, but they boil down to one central issue: how to succeed in today's highly complex operating environment while also investing for the future.

However, while the challenges facing financial institutions are large, so are the opportunities for innovation and growth. Real-time payments and the advancement of open banking will come to define not just the shape of the future value chain, but also its participants.

Set against a background of budgetary constraints and the need to manage what is often a fragmented legacy environment, many institutions are faced with difficult decisions about how to prioritize their IT investments.

This report examines these issues, drawing on the results of Ovum's 2018 Payments Insight Survey. Key findings include the following:

- 51% of banks will increase their IT budgets for payments-related projects, with over a fifth increasing spending by 5% or more on 2017 levels.
- Growth will be strongest in Asia, with 61% of banks increasing investment in 2018.
- 44% of banks that are increasing investment in their payment systems cite security as a top-three driver of this spending growth.

At a product level, investments in online payment capabilities on both the consumer and the merchant sides of the value chain remain a high priority.

- Across all banks, 68% are currently investing or have recently invested in this area, with many enhancing support for third-party wallet offerings and tokenization.
- 43% of banks are planning payment hub investments in the future, led by those

markets that have recently moved or are imminently moving to real-time infrastructure.

- Projects to deliver operating efficiencies through reduction in TCO are also a priority area, with 40% of all institutions allocating investment budgets here.

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.

- 85% of all banks expect real-time payments to drive revenue growth, up from 53% last year.
- 86% of banks are now either experiencing or expecting to see improvements in their customer service, up from 61% in 2017.
- 88% of banks are delivering enhanced retail customer propositions (or plan to) on top of real-time payments, up from 56% in 2017.

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.
- 79% of banks in Europe report that they have plans to actively encourage developers to use their APIs.
- At a global level, 78% of banks and 68% of merchants believe that the combination of RTP 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 banks 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 retail banks should consider to ensure that they are prepared to meet today's challenges and take advantage of the opportunities for the future.

- **Retail banks 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 particularly by developments in open banking and real-time payments, is rapid, and banks must continue to develop their core infrastructure in order to remain competitive. While there remain opportunities for point solutions to address specific issues (particularly around retail payments), 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.
- **View real-time payments and open banking initiatives as true opportunities for service enhancement and transformation.** Real-time payments and open banking have the potential to bring fundamental change to the retail banking value chain, and financial institutions should embrace the opportunities each provides to drive product innovation and service enhancement. Where relevant, these projects should be treated as one and the same driver of transformation. Those banks that view RTP and open banking as isolated initiatives or, worse still, a compliance requirement, risk being left behind in the future.
- **Ensure that payment services are at the heart of your institution's open banking strategy.** Payments are core to banking at any level, and the opportunities for open banking initiatives to transform the way that payments are both made and received should not be missed. Enabling payment initiation to move into new areas and contexts can potentially open up new revenue streams for banks, as well as deepening both consumer and merchant relationships.
- **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.

Security, compliance, and operational efficiency top the IT agenda for retail banks in 2018

Retail banks will continue to invest in their payment capabilities to deliver greater security and compliance alongside innovation

The need to respond to what is an increasingly complex operating environment will see retail banks continue to expand their IT investment in 2018. At a global level, 51% of banks will increase their IT budgets for payments-related projects, with over a fifth increasing spending by 5% or more on 2017 levels.

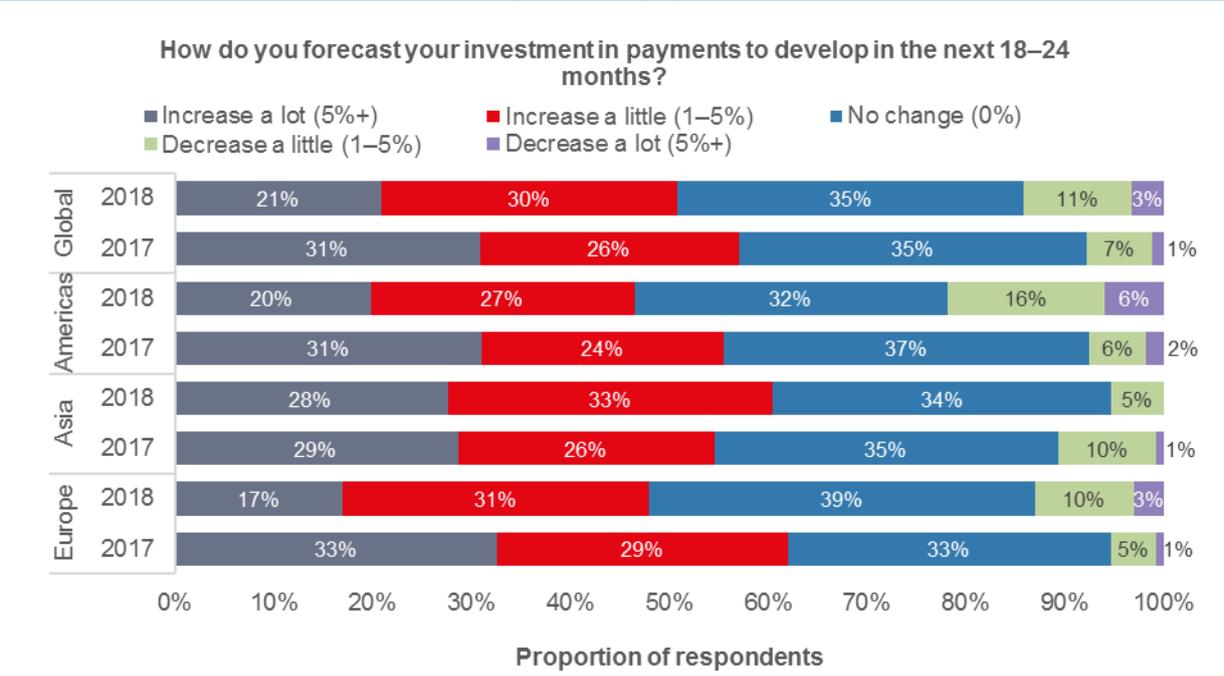
While this is slightly lower than the 57% of banks increasing budgets in 2017, it represents continued year-on-year growth for many institutions and highlights the need to continue to deliver improvements across the software stack. Only 14% are planning to

reduce investment. In many cases, this is due to M&A or the completion of major projects.

Growth will be strongest in Asia, with 61% of banks increasing investment in 2018. The growing pace of innovation in payment services across the region, not least interest in both domestic and cross-border real-time payment offerings, is driving activity here.

While fewer banks in Europe and the Americas plan to increase their budgets in 2018, the need to continue to invest around both real-time payments and open banking initiatives (particularly in Europe) will see activity remain buoyant.

Figure 1: Over half of all retail banks 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 institutions will be balancing innovation against delivering greater security, compliance, and lower TCO

While each bank has its own priorities, security and reducing the risk of financial crime lead the agenda across the industry as a whole in 2018. Compliance and delivering operational efficiency gains are the other key focus areas.

At a global level, the 43% of banks that are increasing investment in their payment systems cite security as a top-three driver of this growth, with 21% listing it as the top priority. This is more pronounced in Asia and Europe, where 48% of banks report security as a key factor behind budget increases.

Projects to deliver operating efficiencies through reduction in the total cost of ownership (TCO) are also a priority, with 40% of banks (and 50% of those in Europe) allocating budget growth. The increasing maturity of vendor applications and greater confidence in

open source and cloud technologies are important enablers.

However, it is important to note that "run the bank" and "grow the bank" projects are not mutually exclusive. For many institutions, years of focus on customer-facing solutions have made core systems enhancements essential. For others, this is a necessary step to create the capabilities for further innovation. Indeed, the expansion of real-time payment infrastructure remains an important driver of both security and core enhancement projects.

Direct investment in innovation remains a strong priority, particularly in the Americas. In this region, 36% cite the reduction of friction in digital payments as a driver of payments IT investment, compared to 32% at global level.

Figure 2: Security, compliance, and reducing TCO will be the focus of much of the increase in budgets, followed by more direct investments in product and service enhancement



Source: 2018 Ovum Global Payments Insight Survey

At product level, investments in enhancing online transactions, P2P, and services around real-time payments are the priority

At a product level, investments in online payment capabilities on both the consumer and the merchant sides of the value chain remain a high priority. Across all banks, 68% are currently investing or have recently invested in this area, with many enhancing support for third-party wallet offerings and tokenization. This was also a core development area for 67% of banks in Ovum's 2017 survey.

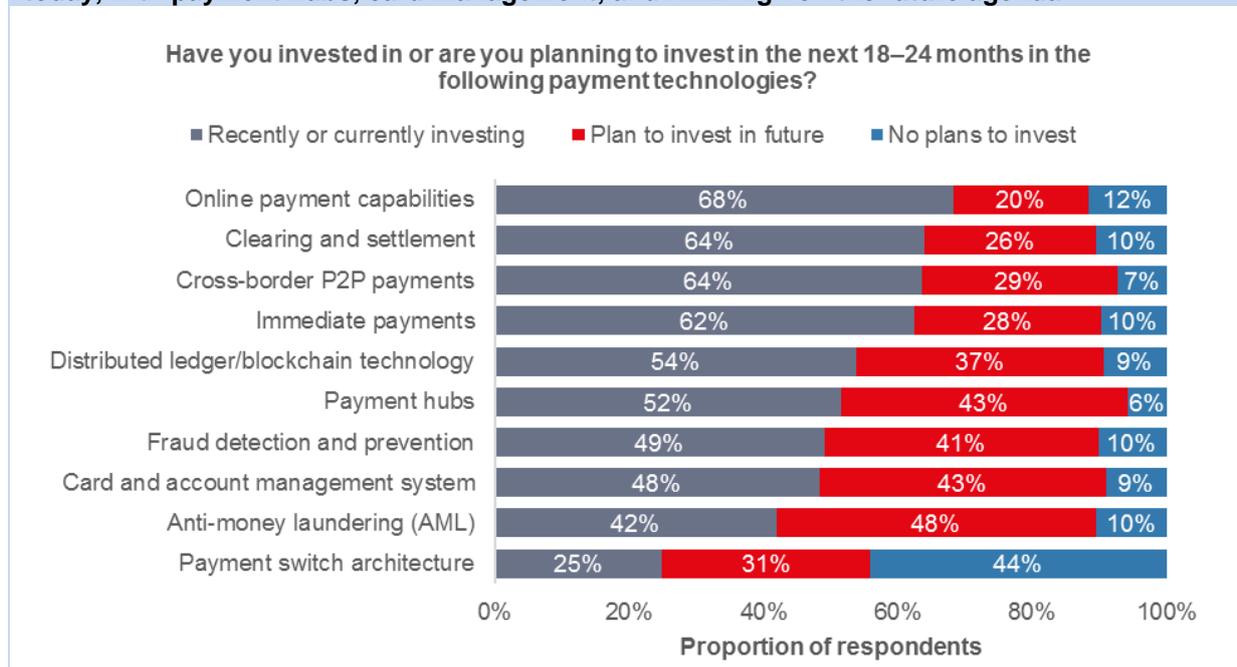
The growing importance of real-time payments is also highlighted, with 62% of banks currently investing in solutions and 28% planning to make future investments. The emphasis on immediate payments has doubled within a year, from 31% in 2017, demonstrating the pace at which real-time payments is driving change in the industry. At the same time, 64% are also engaged in projects around clearing and settlement, with investments in distributed

ledger technology (a current priority for 54%) and its ability to facilitate cross-border RTP an important driver of investment here.

A further sign of these changes is the emphasis on payment hub investments. At global level, 43% of banks are planning payment hub investments in the future, led by those markets that have recently moved or are imminently moving to RTP infrastructure, such as Canada (60%), Singapore (70%), and the Netherlands (67%). While RTP is a major driver of these projects, this is also a function of the longer-term need for banks to support a growing number of payment connections.

At the same time, 43% of banks plan future investments in their card management capabilities, many of which will provide further support for new and enhanced retail payment offerings.

Figure 3: Online payment capabilities and delivering immediate payments are top of mind today, with payment hubs, card management, and AML high on the future agenda



Source: 2018 Ovum Global Payments Insight Survey

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

Delivering greater operational efficiency and reducing TCO are clear priorities for the industry, and implementing modern vendor solutions is becoming an increasingly effective way to achieve these objectives.

Across the market, 39% of banks reported that the operating costs of their payments business had increased over the previous three years, while 22% had experienced a decline.

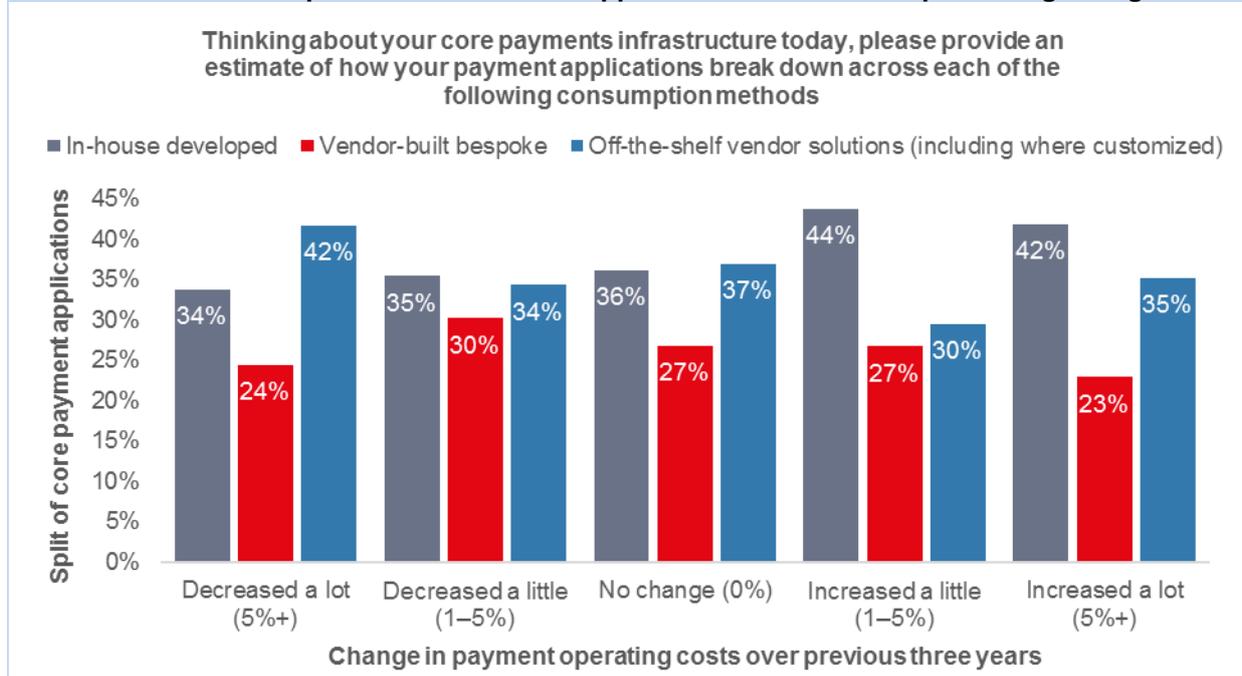
Those banks that have seen the biggest reduction in their payment operating costs report the highest usage of off-the-shelf solutions. Banks in this group report that 42% of their core payments infrastructure is off-the-shelf (including where customized), with 34% in-house developed. Conversely, those banks that have seen the greatest increase in operational costs are running a higher

proportion of internally developed software (42% of the total), with 35% accounted for by off-the-shelf solutions.

While this analysis shows only part of the picture, it nevertheless suggests that those banks that have made the investment to modernize their payments infrastructure – particularly using off-the-shelf solutions – are enjoying significant operational efficiencies.

Managing legacy is one of the biggest drivers of payments IT investment. The banks making the biggest increases in their 2018 budgets are among the ones with the highest proportion of in-house developed software, highlighting both the scale of the challenge they face and the opportunities for those further along their modernization journey to build stronger competitive positioning.

Figure 4: Banks that have seen the operating costs of their payments business decline run fewer in-house-developed and more vendor applications than those experiencing cost growth



Source: 2018 Ovum Global Payments Insight Survey

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

There has been a step change in attitudes to immediate payments in the past year

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 more widely viewed as the foundation of new product enhancements. Indeed, 85% of all banks now expect RTP to drive revenue growth, up from 53% last year.

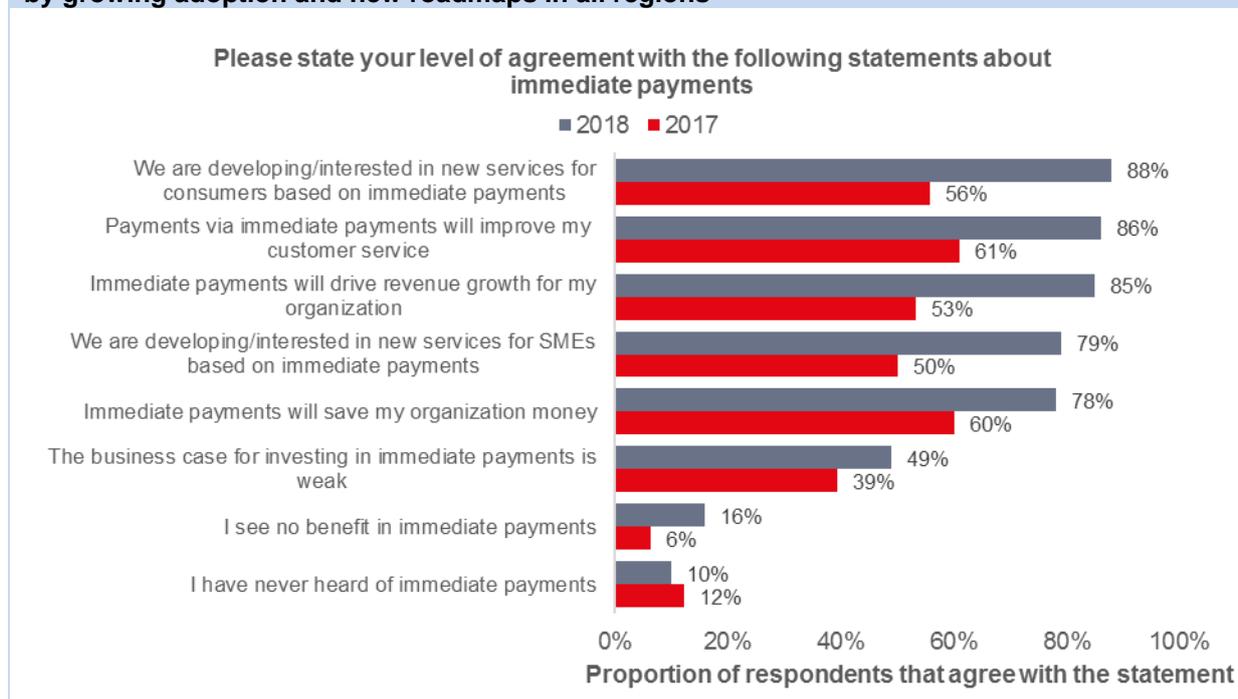
One big change has been around the expected benefits to customer service, with 86% of banks now either experiencing or expecting to see improvements, up from 61% in 2017. Real-time clearing is only one element though, and leveraging RTP to deliver

new products and services has become central to the roadmaps of banks in all regions.

At a global level, 88% of banks are delivering enhanced retail customer propositions (or plan to) on top of real-time payments, up from 56% in 2017. This rises to 92% in Europe, and is higher still in the UK, Netherlands, and India. The SME space will also see innovation, with 79% planning new services here.

In spite of this, 49% of banks still see the business case for real-time payments as weak. While this reflects the centrally driven nature of many projects, these banks risk being left behind those leveraging RTP to deliver innovation.

Figure 5: 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

The expected impact of real-time payments is largely matched by the experience of those in markets with live infrastructure

There are two important factors behind this shift in attitudes to real-time payments. The first is the degree to which it has been discussed within the industry over time. The infrastructure, implementation, and potential benefits are now widely understood.

The second, more important factor is that real-time payments infrastructure is delivering on its potential to drive value.

Looking globally, there is alignment in expectations for real-time payments to deliver revenue growth between those in markets with live schemes and those moving toward launch. There is a similar emphasis on plans for overlay services for consumers, with 86% of banks in markets with live infrastructure planning enhancements here compared to 88% of those in markets with a development

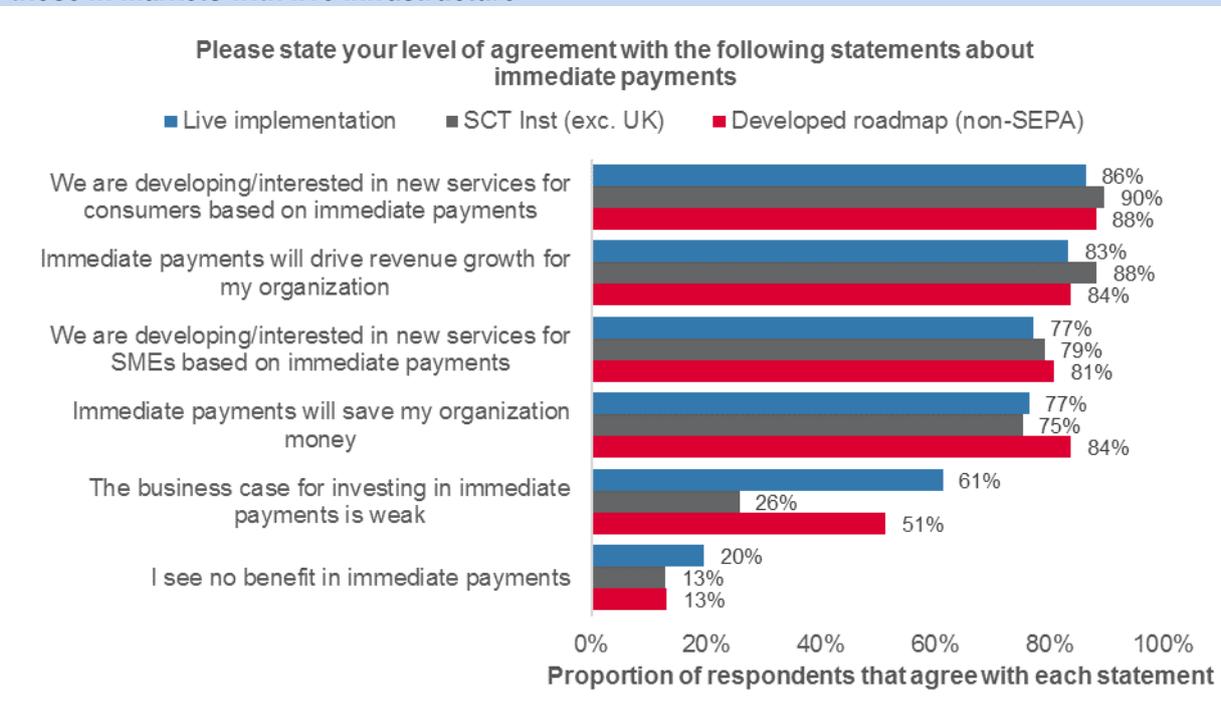
roadmap. Those markets that are part of the SCT Inst scheme are slightly more positive in both areas.

However, there are also differences, and these point to the challenges faced by some institutions around implementation.

Expectations about the ability to drive cost savings are higher in those markets moving toward RTP (84%) than those currently live (77%), suggesting that some have found the implementation more complex than expected.

At the same time, a fifth of banks in markets with live infrastructure report that they see no benefit from RTP (compared to 13% in other markets). This highlights the fact that some banks have approached RTP purely as a compliance issue, and risk falling behind those banks that have embraced the opportunity.

Figure 6: The expected impact of real-time payments is largely matched by the experience of those in markets with live infrastructure



Source: 2018 Ovum Global Payments Insight Survey

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

As with immediate payments, the industry is approaching alignment in its activity around open banking

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

As with RTP, attitudes have changed rapidly in the past 12 months, and the explosion of activity in this space – catalyzed by PSD2 – has made it a key strategic initiative in many institutions. Indeed, 87% of all banks report that they have a clear strategy for developing open APIs, up from 59% in Ovum's 2017 Payments Insight Survey.

Unsurprisingly, European banks are the leaders here, with 92% of banks reporting that

they have a defined open banking strategy. However, this is not restricted to Europe, with other regulators – notably the Monetary Authority of Singapore – setting their own frameworks, and a growing number of banks in all regions now actively exploring the opportunities. Indeed, 86% of banks in Asia and 82% in the Americas are developing their open banking strategies.

The key driver is the ability to enhance the customer proposition, whether this be through direct innovation or the ability of open APIs to enable more straightforward strategic partnerships with third-party solution providers.

Figure 7: Attitudes toward open banking initiatives have crystallized over the past year, highlighting the degree to which this will become business as usual within the industry



Source: 2018 Ovum Global Payments Insight Survey

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

While there has been a rapid increase in activity around open banking in the past 12 months, fewer banks than those that have a clear strategy appear ready to actively encourage developers to work with their APIs and customer data. Nevertheless, a significant proportion of institutions plan to push the use of developer portals and sandbox environments.

What has become clear in the past year is the degree to which open banking will be a major future competitive differentiator.

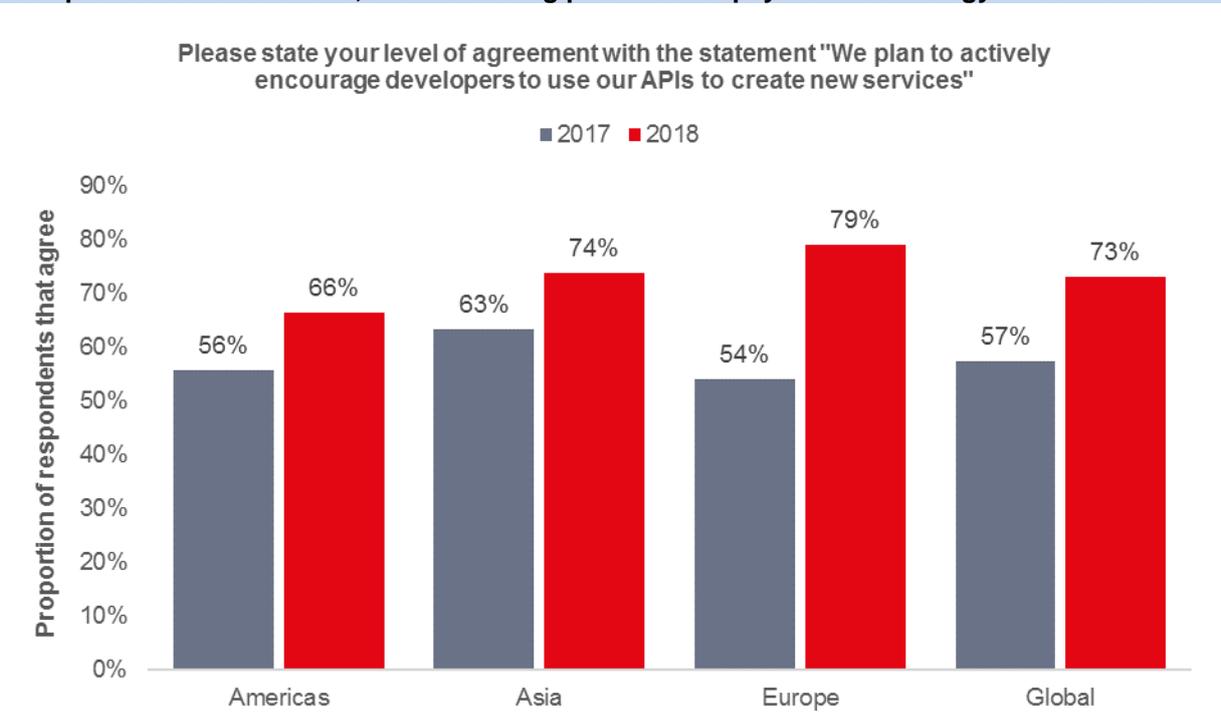
The potential to deliver product enhancements is only one element; the opportunity to accelerate the pace of innovation – particularly through third-party developers – will

increasingly come to define the winners and losers in the future ecosystem.

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 the lack of regulatory mandate in most cases, 74% of banks in Asia are also looking to embrace these opportunities.

The Americas is slightly behind, with two-thirds of institutions planning to push the use of developer services, although it is worth noting that 70% of US banks are planning moves here. This points to significant change ahead, particularly considering that real-time payments infrastructure only went live there in 2017.

Figure 8: Delivering a more consistent cross-channel experience, as well as operational and compliance considerations, are the leading priorities for payment technology investments



Source: 2018 Ovum Global Payments Insight Survey

Despite the enthusiasm around open banking, banks need to ensure they are prepared for the potential security risks

Security is a chief area of concern around open banking, and is arguably the single biggest barrier to a more rapid pace of development. Clearly, providing third-party access to customer data runs contrary to the historic bank operating model and, as any large financial institution will freely admit, losing customer data is a far bigger threat to their business than being slow to market with innovation.

Indeed, those in Europe note the irony that PSD2 – which mandates the opening up of access to customer data – has been implemented at the same time as GDPR, which is some of the most stringent data protection legislation in the world.

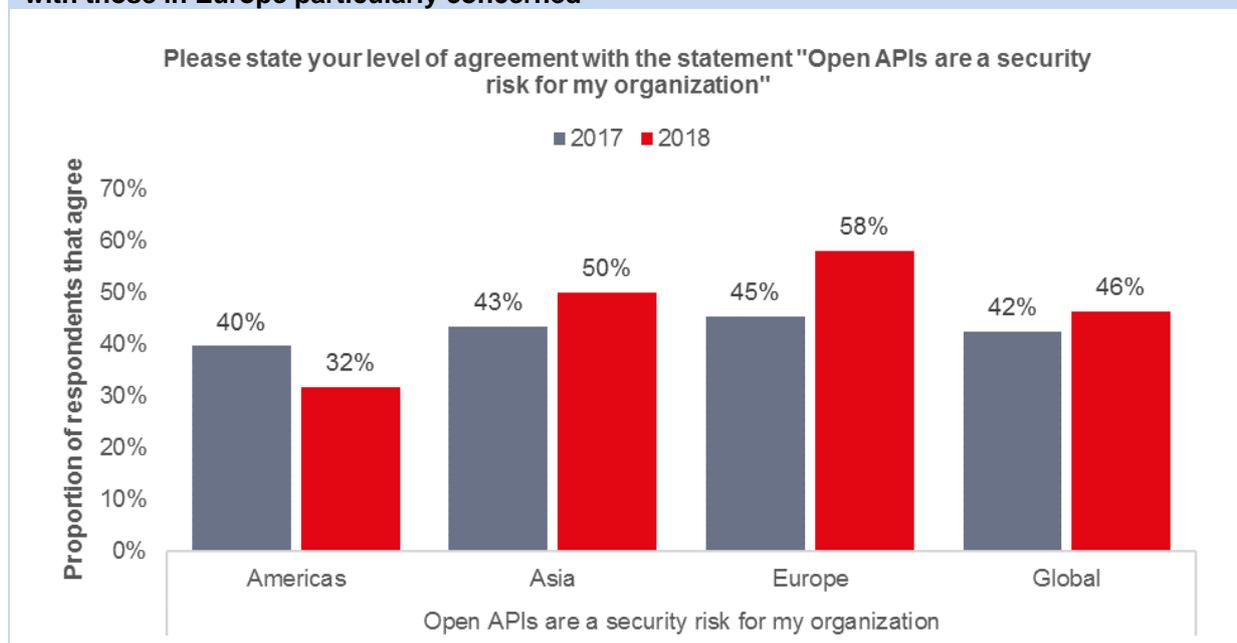
As a result of this, as well as the fact that open banking has been driven by regulatory mandate, concern about the security implications of open banking is greatest in

Europe. Here, 58% cited this as a risk area, up from 45% in 2017 (before the implementation date for PSD2). This is in spite of (or perhaps because of) the work done to set common authentication and third-party accreditation standards across the region. Concern has also increased in Asia, from 43% to 50% over the past 12 months.

Interestingly, the proportion of banks in the Americas that have security concerns over open APIs has declined, from 40% in 2017 to 32% now. The US and Colombia (20%) are particularly low, certainly in the case of the US, reflecting the focus on more selective use cases in the SME and corporate sectors.

Clearly, more work needs to be done to ensure issues like authentication, consent management, and the management of "approved" third parties do not become long-term barriers to innovation.

Figure 9: Just under half of all banks see open APIs as a security risk for their organization, with those in Europe particularly concerned



Source: 2018 Ovum Global Payments Insight Survey

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

While there is a particular focus on the impact that immediate 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 current payment card volumes.

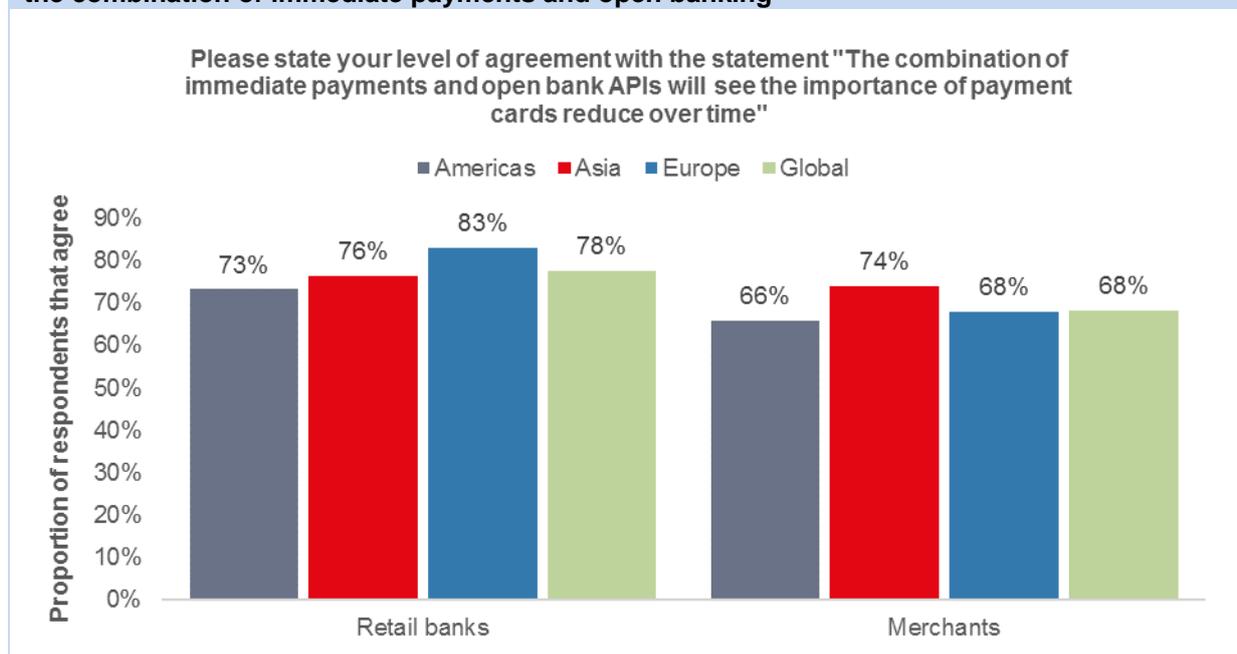
This is a view that is strongly held across the ecosystem. At a global level, 78% of banks and 68% of merchants hold the view that the combination of IP and open banking will see the importance of payment cards decline over time. This is a perspective held by 83% of banks in Europe, which is particularly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

It is interesting to see the level of interest in Asia too, 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 all 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 main topics of focus for the survey include:

- 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 retail banks. Those interested in finding out more detail about the global overview, 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 Ovum's 2017 Payments Insight Survey on retail banks can find that report [here](#).

Respondent breakdown	
Total respondents	277
Respondents by region	
Americas	101
Europe	100
Asia	76
Respondents by size (assets)	
\$200bn+	96
\$100bn–\$200bn	34
\$50bn–\$100bn	59
\$10bn–\$50bn	88
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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