THOUGHT LEADERSHIP

INNOVATION IN THE BANKING INDUSTRY: HOW TO BRING NEW IDEAS TO THE MARKET
IT’S NOT WHEN OR WHY, BUT HOW THAT MATTERS HERE

We understand when banks innovate and even why; risk averse by nature, most are early adopters seeking proven technologies to keep pace with market innovations. Less clear is how banks can most effectively bring new ways of paying to the market. Three options present themselves as possible avenues for implementing innovation.

THREE AVENUES FOR PAYMENT INNOVATION

Banks have at least three ways to bring innovative payment services to the market:

1. Build on top of existing infrastructure
2. Develop stand-alone payment services
3. Employ a coexistence strategy

As with all things, each strategy has its own benefits and drawbacks.

THE DANGER OF PLAYING IT SAFE WITH EXISTING INFRASTRUCTURE

The choice to build on top of existing infrastructure is perhaps the easiest to envision. Payment systems exist today, so building new applications on top of them should be easy and cost efficient. Drawing on their repository of knowledge, banks should be able to leverage existing technology to create a high-quality end product that offers new ways to conduct commerce. However, the outdated and concurrently essential nature of many payment systems unfortunately makes them unfit for this purpose; it’s often too dangerous to tinker with such mission-critical production systems while they are entirely relied on for routine business.

THE PITFALLS OF STAND-ALONE PAYMENT SERVICES

The second option for payment innovation is to build a new payment services system in a stand-alone environment with the best technology available. While this could lead to radical innovation in a rapid timeframe, it could also create redundant systems and significant challenges during integration into a regular production environment.

THE ADVANTAGES OF A HYBRID APPROACH

A third option, the coexistence approach to payment innovation, blends the timeliness of a stand-alone system with the practical realities of building on top of existing infrastructure to bring reliable, innovative payment systems to market. Consider how a hybrid approach would handle a rollout of P2P payments.

THE COEXISTENCE STRATEGY ILLUSTRATED

Installed payment engines cannot authorize transactions based on email addresses or phone numbers — a functionality that is critical for the adoption of P2P payments. Instead of customizing an older system to accommodate these new transaction types, a new system positioned as the intra-day balance of record, capable of authorizing all consumer payment types could be deployed alongside existing systems. Over time, traditional transactions (i.e., credit and debit) would be transferred to the new system.

The coexistence strategy protects banks’ investments in existing technology while enabling them to provide new payment services faster. Instead of bringing a new system into production, existing transactions are simply migrated onto an already well-oiled machine capable of handling them, as well as P2P payments and real-time fraud alerts.

THE CRITICAL COMPONENT TO ACHIEVING INNOVATION — ATTITUDE

Like the hybrid nature of the coexistence strategy, achieving innovation requires a blended approach to routine work. Banks have an amazing capability to solve complex problems. When leaders inspire their organizations to think differently about the work they do every day, they create a climate of innovation, ripe for introducing new ways of conducting commerce to consumers and businesses.

Only when we push ourselves to adopt an innovative approach to transactional banking, can we abandon our desire to stay in what’s comfortable and create opportunities for transformation to occur. Banks that push themselves beyond the ‘when’ and ‘why’ to consider how to effectively innovate will find themselves at the forefront of the industry.
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OVUM DECISION MATRIX: SELECTING AN ELECTRONIC PAYMENT SWITCH PLATFORM

WHAT A PROFIT-GENERATING RETAIL PAYMENTS ENGINE LOOKS LIKE

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