# 2015 Global Payments Insight Survey: Overview

Collaboration is critical to survival

# Catalyst

## Payments are at a crossroads

The payments market is changing. From cash to checks, to charge and credit cards, payments have traditionally been an aspect of financial services where little attention has been given to this important step, and payments were largely taken as a given. Changes were measured in years if not decades, and there was little element of surprise to what to expect with payments. Payments are now evolving at a pace of weeks, instead of the decades it used to be. New providers, new platforms and new payment tools are launching on a near daily basis.

The seismic shifts now happening in the payments markets mark an unprecedented period of potential disintermediation for some, and long term advantages for others, and it is unclear exactly how the dust will settle in the years ahead.

Since there is so much at stake, it's perhaps surprising that the voice of many key players in payments remains relatively unheard and even less well understood. Much of the media hype around the revolution in payments remains fixed on either consumers or individual payment segments with little context or real consideration to how these technologies will play out across the global payments value chain.

As payments become smarter, this evolution has the power to transform the payments experience, and as such the needs, experiences and expectations of all of the players in the payments value chain are more critical than ever.

Late last year, technology analyst house Ovum, in conjunction with ACI, conducted the Ovum Global Payments Insight Survey. This global survey of retailers, financial institutions and billing organizations asked respondents about their experiences, perceptions and expectations of payments and how this is shaping their behavior. As payments go from a market of incremental innovation to a transformational market, it is essential that the views of all those involved in the value chain are understood.

The following analysis highlights some of the key findings of this research and provides an explanation of what this means for payments today in terms of global payment strategies and investment priorities. This overview report is one part of a four-part series based on ACI and OVUM's 2015 survey. Those interested should visit www.aciworldwide.com/paymentsinsight for further information.

# Methodology

For the 2015 Global Payments Insight Survey, ACI and Ovum created a nineteen point questionnaire, looking at the following for key payment players:

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

This digital survey was then sent to key payments decision makers globally in October - November 2014, providing a snapshot of payment perceptions amongst financial institutions, scheduled billing and payment-taking organizations such as higher education, consumer finance and insurance, and merchant retailers.

Overall, this included a total 1,119 executive respondents across 15 industry sub verticals in 25 key global markets, resulting in over 144,000 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, retailer and financial institution findings are advised to visit www.aciworldwide.com/paymentsinsight for further information.

| Respondent Breakdown | |
|---|---|
| *Total Respondents* | **1,119** |
| Respondents by Region | |
| *Americas* | **44.3%** |
| *EMEA* | **31.1%** |
| *Asia Pacific* | **24.6%** |
| 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)* | |
| **Retailers** | |
| *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.** | |

# Summary

## Market players will benefit from working more closely together

The global payments market is facing an unprecedented moment of pressure as new services and new technologies upend the status quo and create new payment expectations among consumers and businesses alike. Retailers, billing organizations (higher education, consumer finance, insurance, etc.) and financial institutions (FIs) all report similar circumstances and expectations, in turn highlighting the potential power that greater industry collaboration could have on the payments industry.

Key insights of this research include:

- 90% of FIs report they want to work more closely with retailers and billing organizations to reduce these organizations' costs. Also, FIs are seen as the most capable providers of all payment technologies.
- 79% of respondents believe consumers want a broader choice of payment tools. A good customer experience is non-negotiable.
- 44% want to cut out fee-collecting intermediaries and simplify the global payments value chain.
- 52% say security risks prevent payments innovation.

Despite the various roles that each segment surveyed here hold in the overall payments value chain, they all face similar challenges that can be broadly summarized as:

1) Appetite for **collaboration** is high. Financial institutions, retailers and billing organizations want to work more closely together.
2) The **customer experience** is king and this will not change. All players must satisfy shifting consumer demand and enhance their payment capabilities.
3) **Security** remains a key issue at the heart of payments innovation. Concerns about security are hindering investment, and ultimately indecision will only lead to more risk while reducing the ability to reduce costs and meet consumer demands.
4) **Simplifying the value chain** is seen as critical. As payments diversification grows, players are wary of adding complexity and costs to payments.

Although the payments market is becoming more competitive, greater cross-industry collaboration—for example, on infrastructure and security as well as on introducing real-time payment capabilities—can help to meet these challenges head on. At the moment many industry players remain understandably focused on their own particular niche in the payments ecosystem while missing the opportunities and benefits that greater collaboration could bring.

This window of opportunity, however, remains limited in a market that is currently facing such high levels of disruption. Incumbent players who are slow to adapt will quickly lose a potential competitive edge, even as their payment costs continue to rise. For FIs, their position as the natural provider of payments won't last without constant development. Retailers and billing organizations meanwhile will quickly lose out to the competition if their customer experience does not exceed that of their rivals.

The payments market is at a critical inflection point, and those players which do not seek to collaborate across the value chain risk their long-term viability.

# 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:

- **Explore partnerships to drive new value.** The drivers affecting the payments market across the value chain remain remarkably similar. Greater collaboration and closer working relationships between players can drive innovation and help adapt to the new payment zeitgeist.

- **Focus on the customer payment experience and innovate around new payment services.** It is still unclear if any particular technology will eventually 'win' in payments, but constant change is now a given. Being able to adapt to and implement these new payment tools as and when required is now critical.

- **Invest in security and core infrastructure.** Although many aspects of payments are changing, the need for security remains as strong, if not stronger than ever. Alongside investing in specific security technologies, enterprises need to ensure security across their infrastructure.

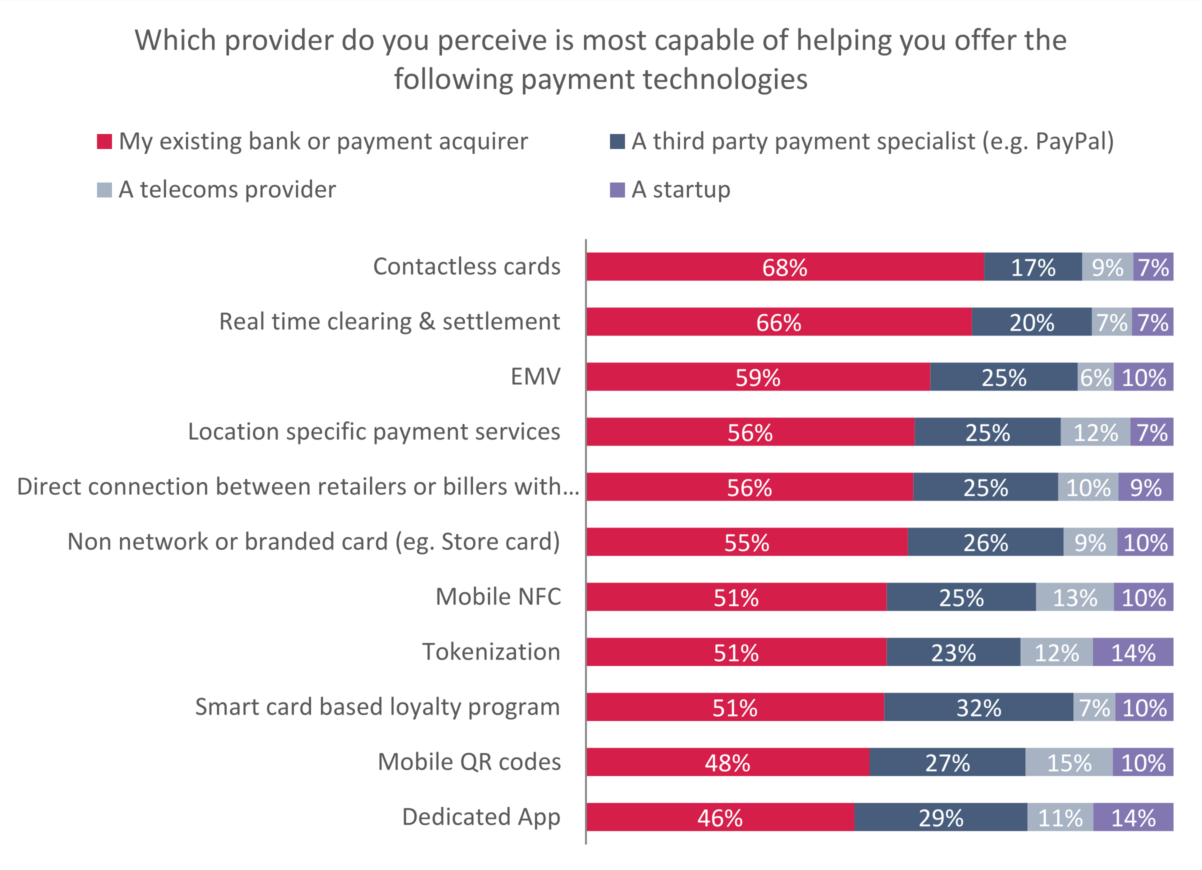
- **Seek to simplify infrastructure.** As new payment tools become more common and grow in transaction volume, the global payments value chain risks becoming increasingly complex and convoluted, opening up the potential for further difficulties. By simplifying both architecture and payment service provisioning, enterprises can help streamline their own payment systems, lower costs and add flexibility to payment processes.

# Banks, retailers and billing organizations want to work together

Banks today hold an advantage, potentially an extremely strong one, in that they continue to be seen as the primary provider of payment services among retailers and billing organizations. Across all of the regions and sub-verticals surveyed by Ovum, banks by far came up as the best-placed provider across all categories of payment-related services included in the survey.

In many payment product categories such as contactless cards and real-time clearing and settlement, banks naturally hold an advantage, with ratings of 68% and 66%, respectively. However, even in less obviously banking-related fields, such as mobile apps (46%) and mobile QR codes (48%), banks are still regarded as the most capable providers of these payment services.

**Figure 1: Banks are viewed as the most capable providers across all payment technologies**



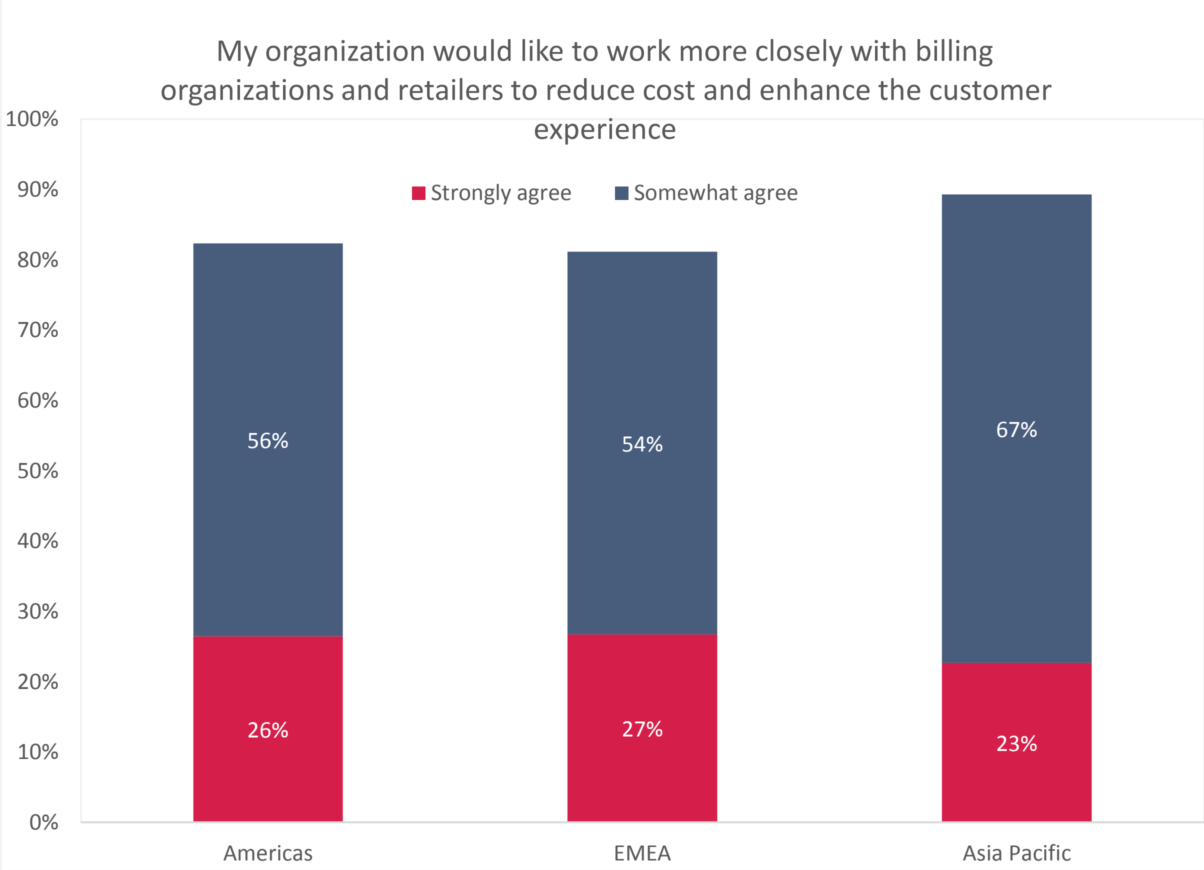

Source: 2015 Ovum Global Payments Insight Survey

As shown in figure 2 below, FIs report they want to work more closely with retailers and billing organizations. Across all regions and tiers of banks surveyed by Ovum, these findings remain broadly consistent, with up to 90% of banks in Asia Pacific agreeing they want to work more closely with retailers and billing organizations.

Although banks hold an advantage in being seen as the most capable providers of most payment services, this advantage will likely get chipped away over time as new players continue to enter the market and launch a range of competing services and platforms.

These findings show that retailers, billing organizations and banks want to work more closely together. FIs enabling this today will create a win-win situation and help alleviate the threat they face from new market entrants.

**Figure 2: Up to 90% of banks want to work more closely with retailers and billing organizations**




Source: 2015 Ovum Global Payments Insight Survey

# A good customer experience in payments is non-negotiable

## Perceived consumer demand is driving shifts in payments

Across the global payments value chain there is a growing sense that consumers want a broader choice of payment tools. Globally, over three quarters of respondents surveyed by Ovum (79%), incorporating retailers, billing organizations and banks, either somewhat or strongly agreed that consumers want to be able to use a broader choice of payment tools. The 'broader' list includes tools such as PayPal, e-billing, mobile payments and so on. Billing organizations for instance are preparing for significant advances, with 50% of survey respondents reporting they are evaluating at least eight new bill payment methods.

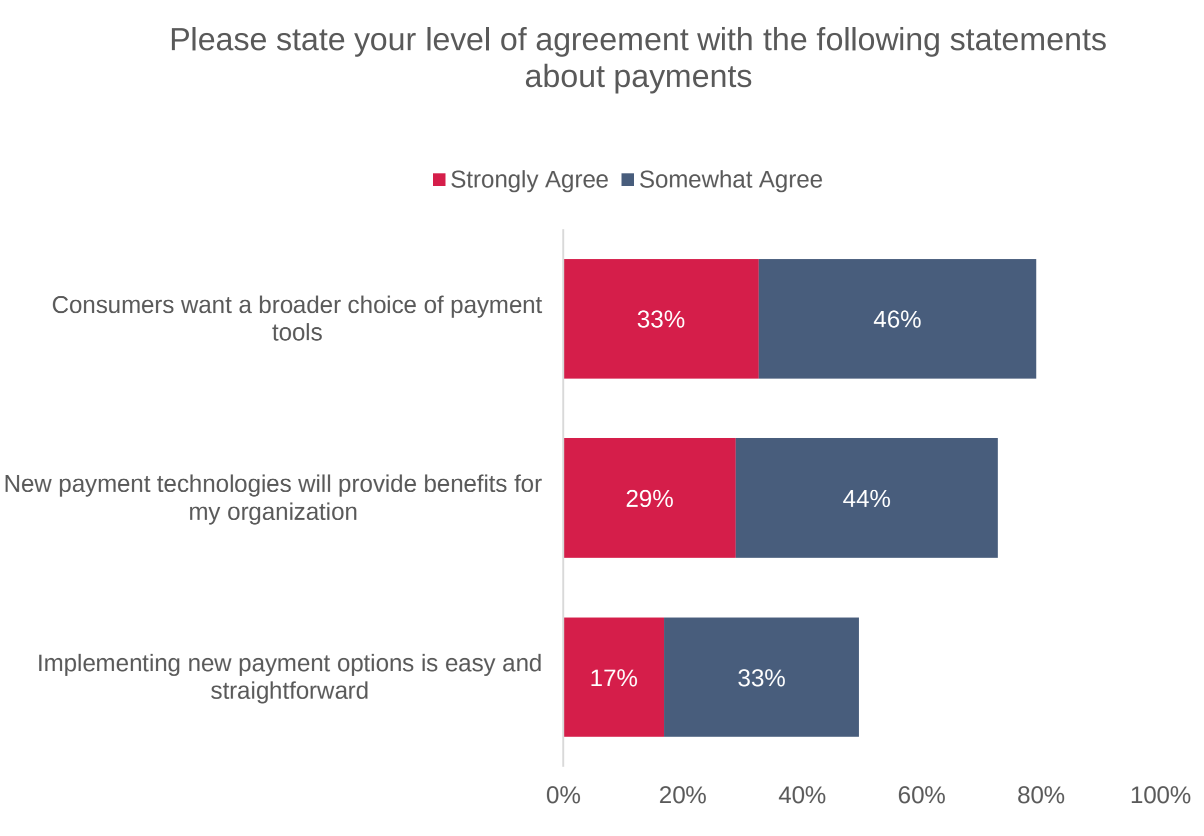
This high level of focus on perceived consumer expectations over additional choice in payments was consistently strong in all sub-verticals, and across organizations by both size and geography. Wherever you are, the consumer remains king, and payment strategies are adapting as much as possible to meet this shift in demand, while also balancing the need for robust security.

Although driven by consumer expectations, the variety of new payment technologies now being launched are viewed quite favorably by payment takers and payment providers, with 73% in agreement that new payment technologies will provide benefits to their organization. This suggests that much of the innovation now occurring is broadly perceived as a win-win, improving the customer experience while also providing other benefits, such as enabling incremental sales, adding security and lowering costs.

Despite this positivity in terms of organizational benefits and meeting customer demand, implementing these new payment options is still regarded as a potentially challenging experience, with only 50% of survey respondents stating they believe launching new payment tools is easy and straightforward.

Ovum believes that many of these more positive respondents are likely to have not yet undergone the potential challenges of new payment tool implementation, particularly in instances where they continue to rely on older legacy payments infrastructure.

**Figure 3: 79% of payment players feel consumers demand a broader choice of payment tools**




Source: 2015 Ovum Global Payments Insight Survey

# Security must be entrenched in all aspects of payments

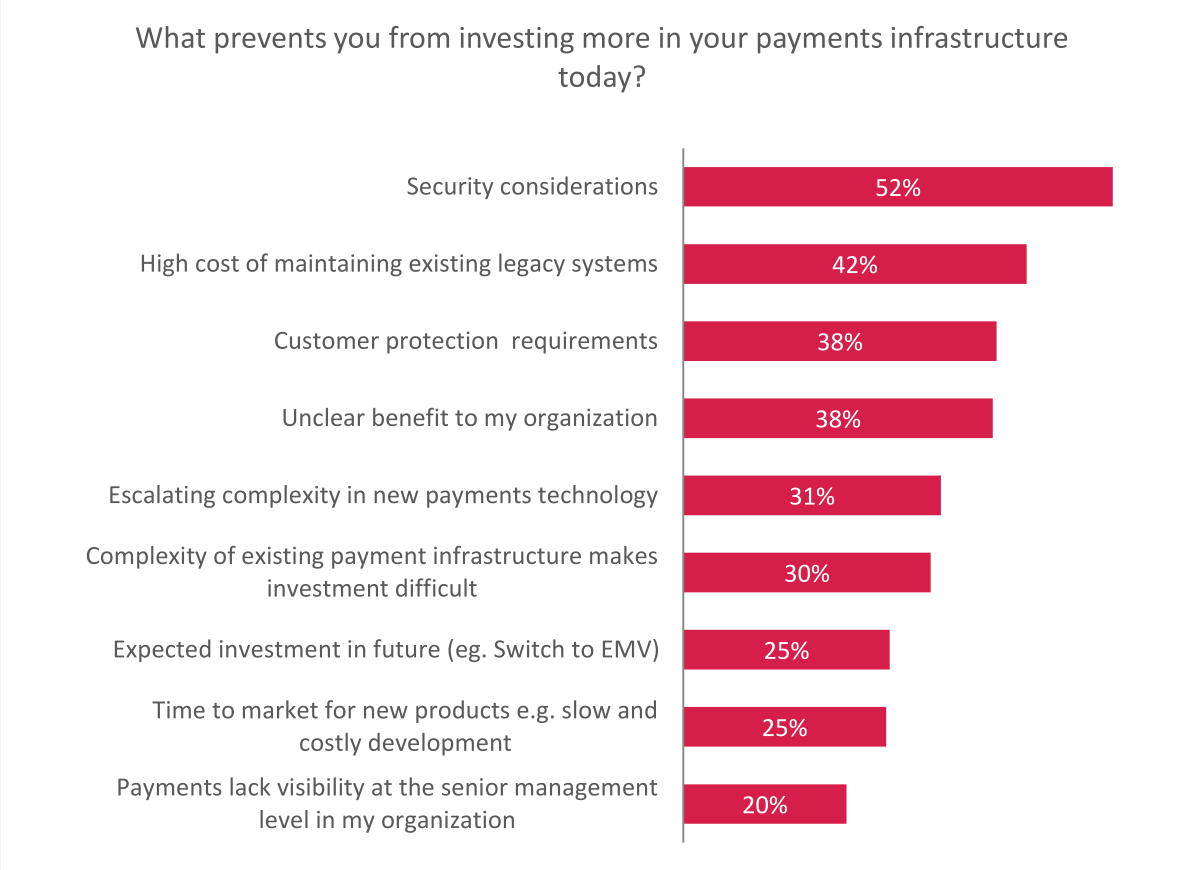
## Security remains a major stumbling block to innovation

Security considerations are by far the biggest stumbling block to increasing investment in payments. Over half (52%) of respondents cited security as the primary cause preventing further investment in payments. This scored significantly higher than the costs of maintaining legacy infrastructure (42%), customer protection requirements (38%) and the perception of unclear benefits to the organization (38%).

Given the high profile nature of the data breaches that have happened in recent years, many throughout the payments space remain nervous about security considerations and are reluctant to 'dabble' in relatively new and untried payment services. New forms of payments and new tools in many instances can lead to new attack strategies for fraud. This is frequently worsened by the reliance on older legacy payment infrastructures that are not as adaptable to payments innovation and will eventually require more complex security implementations.

Fraud, however, always moves to the easiest target, and this reluctance to invest is likely in fact increasing the risk of fraud by relying on older, out-of-date technology. New technologies such as EMV and Tokenization, among others, provide significant security improvements, while new infrastructure technologies such as the latest generation of switches have significantly improved security capabilities. Relying exclusively on legacy systems and platforms risks limiting the overall development of the payments market, particularly for incumbents, while in turn doing little to prevent the fraud and security issues that are limiting development.

**Figure 4: 52% of respondents cite security considerations as preventing payments investment**




Source: 2015 Ovum Global Payments Insight Survey

# Payment players seek to balance enhanced capabilities with a simplified value chain

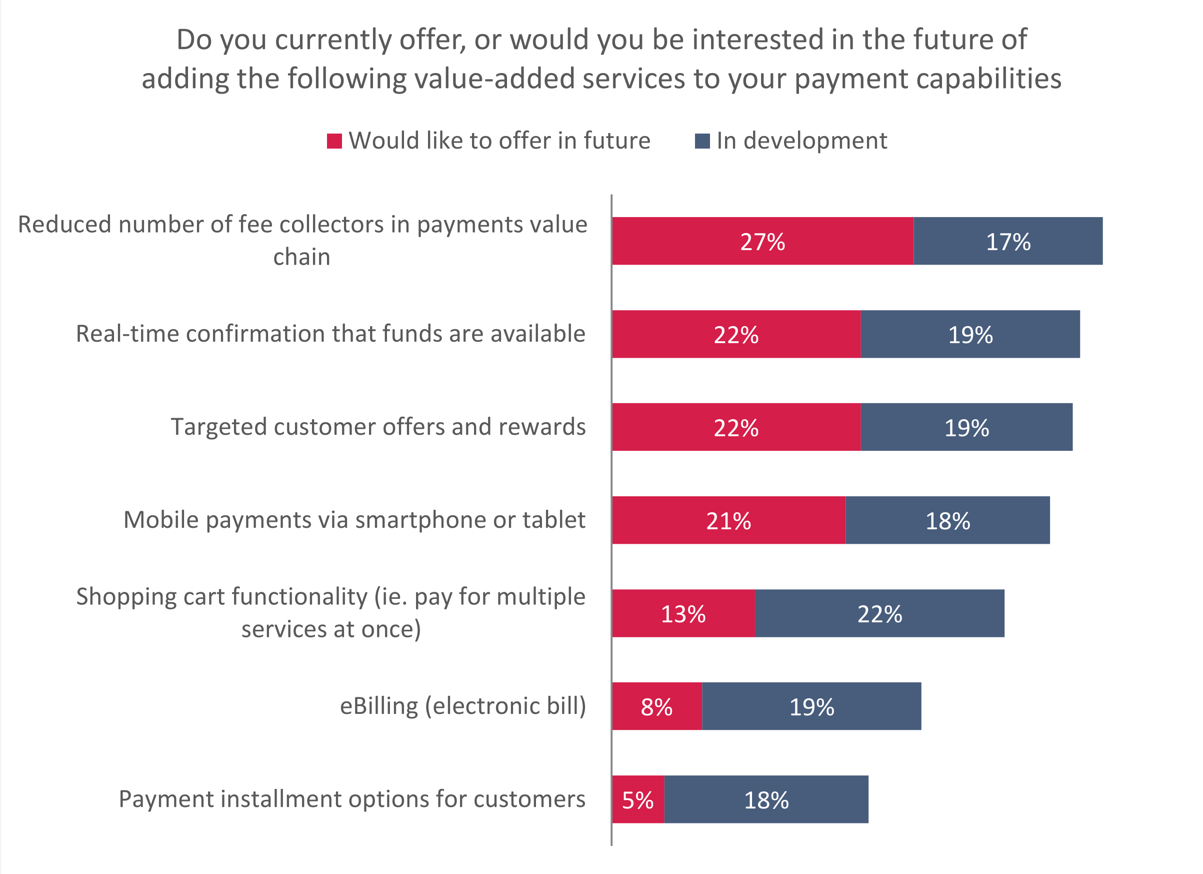
## Many are now seeking to reduce the number of intermediaries to lower their costs

The payments industry has always been a complex market with a complicated value chain incorporating numerous potential stakeholders. In addition, many forms of payment innovation, such as NFC or mobile wallet plays, hold the potential to add further complexity as new providers enter the market.

As payments become more complex, there is growing interest in reducing the number of what are viewed as 'fee-collecting' intermediaries in the payments value chain, and this remains a top priority for many billing organizations. Globally, 44% of organizations claim they are already taking steps to, or would like to eventually, reduce the number of intermediaries in the payments value chain.

Globally close to 56% of payment players are forecasting their payments investment to increase in the next 18-24 months. In contrast to this, only 12% report they expect to see any decrease at all. In light of the forecast increases in payments investment and a backdrop of rising payment costs in recent years, a key priority for lowering costs over the long term is to reduce the complexity of payments.

**Figure 5: Reducing the number of fee collectors in the payments value chain is the top priority**




Source: 2015 Ovum Global Payments Insight Survey

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# Ovum Consulting

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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