The perfect fit

Maddie Saghir reports

With payments becoming faster, digital, frictionless and invisible, collaboration between fintechs and banks will be key for future innovation and development in the payments space

In a world driven by technology, the landscape of the payments industry has gathered more pace than ever before in the last 12 months.

The mixture of technology and innovation has encouraged industry players in the payments space to embrace new technologies to further improve the user experience.

The UK has been accustomed to faster payments for a while, so while it might seem like old news, but there are plenty of countries — even developed economies — that don't have a real-time payment service similar to faster payments.

Vinay Prabhakar, vice president, product marketing, Volante Technologies, suggests Canada is a good example of this.

However, Prabhakar says many countries are implementing real-time payment systems and traction has picked up in the last 12 months.

The ongoing COVID-19 pandemic has proven to be a catalyst in the adoption of digital payments especially contactless payments making it a table stake requirement for customers looking for new cards.

The resilience of the payments industry has been tested due to a sudden surge in transaction volumes. Santosh Tripathy, practice lead, digital payments of SmartStream, explains that the industry has responded brilliantly with greater collaboration between participants. Tripathy says: "There has been a steady rise in the adoption of real-time payments and open banking use cases across the board, which in itself is very promising."

Although the trends continue to be in the space of instant payments, open banking, blockchain, e-wallets, contactless payments and Central Bank Digital Currency (CBDC) initiatives, a very interesting trend, according to Tripathy, has been the inception and growth of domestic/regional card networks globally.

Tripathy noted that the National Payments Corporation of India (NPCI) has launched its international subsidiary NPCI International to take its popular instant payment service Unified Payments Interface (UPI) and card network RuPay to international markets.

Elsewhere, 16 banks from Germany, France and three other eurozone countries are working on a 'truly European' payments system that shall act as a rival to global card networks Mastercard and Visa.

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Central banks globally are not only pushing and adapting to real-time payments and open banking, Tripathy says some of them are exploring the feasibility and benefits of CBDC.

Head in the cloud

The adoption of cloud is a trend that has been around for a while but has been heightened during the pandemic.

Although more of a technology trend, the number of banks that are committing to moving their payments processing structure to the cloud or working with fintechs who provide payments as a service in the cloud, is going up "significantly", according to Prabhakar. He suggests the pandemic has acted as a driver to increase demand and accelerate urgency.

"As a bank or financial institution, if most of your staff are working from home it doesn't make sense to run your own data centres. In fact, it is problematic if machines are housed in buildings and your staff cannot access them, this causes resiliency and business continuity issues, as well as security concerns", Prabhakar added.

Other advantages of the cloud include cost reduction and being able to reduce the operating costs of processing a payment by moving the same volume and the same customers to the cloud.

He explains: "That's a big deal because in a price competitive market it is hard to increase revenue and customers, but you can look to manage costs. With the pandemic, we are seeing a big focus on cost reduction and cost efficiency driven by that."

Interest in innovation

The payments industry and the regulators have slowly started to take cognisance of the lack of investments and innovation in the operations and control space, according to Tripathy.

The Prudential Regulation Authority (PRA) has launched a consultation paper "Non-systemic UK banks: The PRA's approach to new and growing banks" to discuss how to supervise and manage new and growing non-systematic UK banks.

Tripathy says the PRA has noticed that many of these new banks have underestimated the development required to become a successful and established bank.

"Often, these banks are focused on the ambition of becoming authorised and lose the long term focus of becoming a sustainable business or fail to appreciate the ongoing need to invest in systems and controls to ensure they remain commensurate with the evolving needs of the business", he added.

The lacunas in the operations control has shocked the payments industry time and time again with its "ill-effects" causing financial and reputational risks for organisations.

Tripathy explains that the collapse of Wirecard is a case in point on how the industry can avoid such shocks with appropriate checks and balances.

But, the good news is that the industry need not wait as the technology and relevant solutions are available that can be leveraged immediately, he suggests that innovations in artificial intelligence and machine learning "could not have come at more of an opportune time".

Elsewhere, Prabhakar notes that there is not a lack of innovation, it is not evenly distributed.

Using the example of cross-border payments, he says: "It used to be that if you wanted to move money from one bank account to another and one country to another then as a bank, SWIFT was one of the only options but now both banks and consumer businesses have a lot of options."

More options such as Ripple, which has a blockchain-based network, Visa B2B, TransferWise, Paypal Xoom, among others, have been introduced to the market. The availability of the new platforms is the result of innovation in the last few years.

However, Prabhakar identifies that innovation is only happening in certain areas; innovation is being experienced more so by fintechs and challenger banks rather than by traditional banks.

A lot of traditional banks are changing at a slower pace and still offering the same corporate and small business services that they were one year, two years, or even five years ago.

However, he suggests this is "on the cusp of change" as banks need to be more competitive and look at the different ways to deliver new services to their end clients.

Also weighing in, Andy Schmidt, global industry lead, banking at CGI, says: "There isn't a lack of innovation in payments in terms of technology, rather, there is a lack of imagination in terms of use cases for this technology."

For example, Schmidt asks why has it taken so long for faster payments to catch on?

"There is a lack of compelling use cases and value creation given that there are plenty of other payment rails that are fast enough", he adds.

Is collaboration key?

Collaboration can come in many shapes and sizes. Some of the best collaborations are between traditional banks and fintechs as they have an extremely complementary approach, working hand in hand to learn from each other.

Tripathy believes that collaboration within the payments industry is the way forward to approach the challenges for participants whether it be in the form of share, survival or growth. He explains: "There is no need to shelve important but time-consuming enhancements for the want of time and resources. The industry can leverage the specialists to handle it for them. The payments industry is looking to outsource some of the routine but critical functions in operations to partners."

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It was noted that it would allow "transparency, greater control and would free resources to focus on their key functions".

While banks are not as good at being agile, providing new product development or customer experience, fintechs are able to deliver those qualities. And on the other hand, banks are very good at regulatory compliance and trusted by the industry, something that fintechs could be seen to lack.

Experts also affirm that the size of the firm is not really relevant. Prabhakar notes that whatever the size, the fintech must be the right fit for the bank, for example, banks should look to partner with firms that have modern technology stacks that can think and move like tech startups.

Firms of any size, if they are structured correctly can move very quickly. He says: "There is no one right way of working with fintechs either, it could be a pure partnership-based collaboration or it could be that the bank makes an investment in a fintech. Sometimes banks create their own fintech subsidiaries. Collaboration has many different flavours regardless of size."

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Elsewhere, Tripathy suggests the payment industry is on the cusp of "momentous revolutions that would change the world of payments we know".

The payments are becoming faster, digital, frictionless and invisible.

He says: "The ecosystem is changing and rewarding the ones most responsive to change."

Schmidt also stresses the importance of collaboration in payments, highlighting how "essential" it is right now.

"The fintechs play an essential role in that this is where many of the groundbreaking opportunities continue to come from," Schmidt said.

However, he believes the challenge is in getting the banks and the payment networks to adopt and adapt these ideas into meaningful customer outcomes and revenue streams.

What's next?

The challenges are often intermingled with the opportunities so, despite the challenging demands of the pandemic, opportunities in innovation can be made in this space.

Experts predict an expansion of real-time payments and open banking use cases.

Artificial intelligence, machine learning, blockchain and cloud-based technology will drive innovations and fintechs will continue to push the boundaries along with challenger banks, according to Tripathy.

He adds: "Digital banks licensing norms would be eased even further and we shall see new entrants. I am also expecting central bank digital currencies to gain traction in addition to other blockchain-based payment solutions."

Although it is always hard to make predictions, because of events such as the ongoing COVID-19 pandemic, Prabhakar suggests that because banking and payments are essentially stable industries, there will be innovation and further change.

He believes this change will be based on an acceleration of existing trends rather than the birth of brand new ones.

"For example, an increase in digital payments volumes with more banks moving to the cloud, which is going to become the norm for delivering payment services. In eighteen months the industry will still be grappling with the impacts of real-time payments, ISO 20022, and open banking, so any truly new trend would not kick in until later," Prabhakar adds.

These new payment services are more likely to be delivered by fintechs rather than banks in collaboration environments. He notes that there will be more real-time experiences, greater use of the data in ISO 20022, which will help drive analytics as well as the kind of data that is common in other areas such as social networks.

He concludes: "When you consider social networks, they are essentially running their businesses on the data in their networks. Today, banks make very little use of the payment data that flows through their accounts and I believe we will see more use being made of that data as is possible from a regulatory perspective."