Payments Modernization: How to Transcend Consumer Demands

DieboldNixdorf.com

Navigating the new world of payments

Consumer, consumer, consumer. Every retail bank should have this mantra on repeat as they move into this post-pandemic, digital world.

Now is the consumer-driven era, where connection, collaboration and speed are the only ways to meet dynamic expectations.

We moved from single channel to multi-channel to omnichannel services that serve modern consumer journeys in the blink of an eye. Tech disruption and the burden of decades-old, siloed legacy payments processing systems are now forcing financial institutions (FIs) to act.

Consumers expect to use any means of authentication, on any channel, at any time to initiate a consumer journey where payments is only one important step towards completion. You need to satisfy them where they are, always; because disrupters, flexible and without the constraints of large institutions, are winning.

The COVID pandemic accelerated many changes in consumer buying behavior, with the majority of transactions pivoting to digital almost overnight. This has made banks think differently with regards to how they can integrate payments into those consumer journeys. As a result, many are now considering how to modernize their payments ecosystem to make payments accessible to those digital use cases, and ultimately stay competitive.

In this whitepaper, Diebold Nixdorf examines how legacy infrastructure is thwarting banks from making the full-fledged digital and services-oriented architecture transformation needed to excel in the future of payments.

We explore how a well-executed payments modernization project can result in improved customer satisfaction and increased margins, followed by the thoughtful planning, smart processes and strong partnerships needed to get you there.

Legacy Systems and COVID

Leave legacy systems behind

Established banks are fighting an uphill battle against several legacy challenges. As regulation increases, the competition from fintechs and even outsiders – like tech giants Apple and Google – grows.

Overcoming these challenges requires an agile reaction to the consumer-driven market. Unfortunately, one of the biggest obstacles is the legacy monolithic infrastructure and therefore decades old business processes; and that's why many now see investing in new payment types and core systems for digital services as a strategic priority. Others see it as an absolute necessity. Those that don't, risk being left behind.

A bank's core products are digital. When you apply for a business loan, open a savings account, or execute a payment, you don't get physical goods – you get a digital product.

Each digital product is created, maintained, and sold by thousands of lines of code and processes. Some might be 40 years old, and that's not inherently bad, but they reflect the products of that time. For context, almost all banks are working with infrastructure that predates the internet for their core processes. Most of these are mainframe-based systems reliant on overnight batch processing.

Until now, the impetus on 'always available' and robustness has overpowered the replacement of these systems and processes. But rapid digitalization has changed everything. In a world where real-time payments and instant digital experiences integrated into digital consumer journeys are the standard, legacy systems and their inability to provide services through modern APIs are handicapping the established bank's ability to remain competitive.

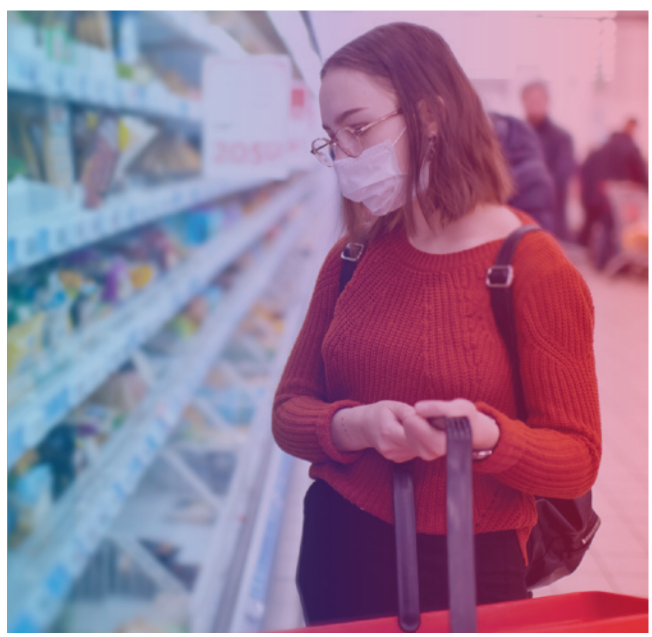
Banks are strapping band aids and scotch tape across legacy system siloes, forcing them to do something they were not designed to do. It's expensive, cumbersome, and not fit for purpose.

By the time you get to market, the entire landscape has changed. You're too late.

COVID has changed the industry

The pandemic has sparked a different approach to how banking and society work. Before the pandemic, most FIs embraced digital into their strategies, and COVID has thrown fuel on those plans.

In the post-COVID landscape, an evolving financial services sector is dealing with the pandemic fallout. It means reconfigured business models, new ways of engaging with customers and a shorter window to deal with issues already plaguing the industry.



Attracting and retaining technical talent requires innovation

Banking was already dealing with a shortage of technical capabilities before the pandemic. It's worse now.

What's more, according to a Deloitte report – The 2021 Global Outlook Survey – two out of five banking executives say their workforce "was not ready to adapt, reskill, or take on new roles" during the pandemic.

This technical deficit can be attributed to legacy systems, but lack of innovation can also be blamed. The generation of IT professionals who developed these systems and who hold the expertise in COBOL and other antiquated code have now reached retirement age, leaving no bench strength. And the 'Great Resignation' has only deepened the cracks.

Banks are now faced with a two-pronged issue: they're trying to prop up old systems and keep them running, with fewer skilled resources, while they're also trying to transition to new systems that require new skillsets—and they're losing out on those people too.

Why? Because the professionals with the expertise to manage a modern software ecosystem often opt for tech companies over traditional FIs, for a range of reasons.

If ignored, this skills gap is only going to get worse. Let's focus on what you can do today to attract and retain new technical talent to your teams.

Invest in modern technology: become a more attractive prospect by investing in cloud-native, low-code payments technology with AI capabilities. People want to upskill on the latest innovations, rather than risk getting left behind.

Build a culture rooted in true collaboration: empower your people to share, grow and make decisions that improve results.

Remember, cultural change isn't instant: it's a journey that starts with small steps. Find quick wins to carve a path towards positive change but focus on the long-term.

Create 'open-sourced' training opportunities: get teams to vote on training offered. Involving them in the process shows their opinions matter. Also, it changes perceptions about technology priorities, as you give access to new technology and encourage them to learn.

Better align business and technical leaders: when leaders work together, their impact grows, leading to a stronger feeling of involvement and innovation across the company. Cross-functional teams with aligned goals bring the teams closer.

Customers have less time to solve challenges

Issues that both private and business customers thought they had years to handle have suddenly become urgent. FIs need to offer digital services that help them to stay in business and support their business growth. It's crucial to retaining and enticing customers.

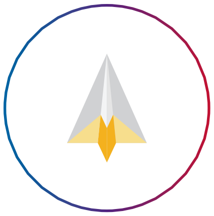
After all, the customer's last best experience becomes the benchmark for all touchpoints going forward. FIs don't have a choice but to adapt and continue to innovate to provide the best service every time.

Let's say you were furloughed during the pandemic. Your laptop breaks and you can't afford to buy a replacement upfront. The only way to buy a new computer is to split the payment into three or four instalments through a service known as 'Buy Now Pay Later (BNLP)'. A growing trend mostly led by fintech; yet in fact instalments payments predate the modern credit card.

How can banks be on the forefront of these new payments technologies? The solution they produce needs to be:

Easy to use

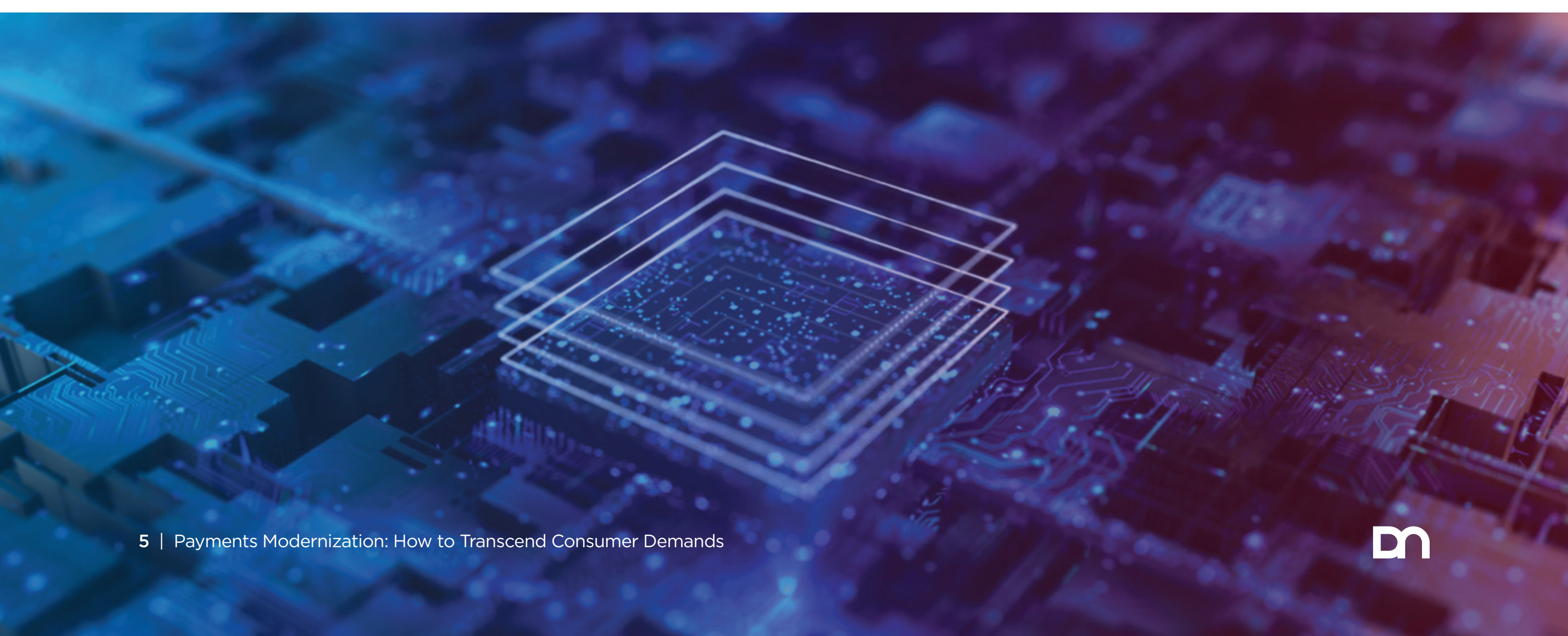
Easy to integrate



On the market, fast

In this modern, fast-changing payments world, if FIs want to succeed, they must do more than give customers the service they need. They must anticipate what will come next, and make it happen quickly, or someone else will and it will be too late.

Everything is changing faster. Spending years bringing services to market is too long. More modern agile competitors replacing legacy software or partnering with fintechs are capturing the market.



Payments Modernization

New payments players enter the scene

From cloud to microservices to a low code environment, new technology stacks are maturing and enabling banks to process huge transaction volumes at low cost as they scale, easing the tech debt burden that traditional monolithic payment hubs levy.

New players are entering the market, leveraging these technologies to provide banks with specialized services to modernize their entire payments stack.

Crucially, the speed to market of this modern software gives FIs the tools to adapt in a fast-changing consumer-driven world. Where traditional systems take years to reach the market with new products, modern cloud-native payments solutions can get you there in weeks.

Fintechs driving innovation – threat or co-opetition?

Fintech companies are driving the development of new business models in the financial sector with modern platforms and ecosystems. They are pushing banks forward, forcing them to act.

Unbound by strict regulations and legacy systems, fintechs have exploited the opportunities brought about by changing consumer behaviors and rapid digitization.

Leading banks have realized that if they don't act now, they face the potential danger of becoming obsolete in that market segment. We've seen disrupters like N26 and Revolut obtain full bank licenses, showing that fintechs are a real competitive threat to traditional FIs.

But is there an opportunity for co-opetition? Banks have their customer populations and relationships, including historical data and additional service offerings. Fintechs are nimble but siloed in what they offer, and lack the depth of the customer base that banks already have.

The fact is, banks are the ones well placed to satisfy the need for a seamless omnichannel payment experience between different payment methods (card, ACH, cheque, and digital methods), and can potentially offer better rates as they do not rely on payments transactions as their sole revenue and profit driver.

It's important for the bank's infrastructure to allow for quick and easy deployments, giving customers the best possible experience while growing the bottom line.

Payments modernization is the perfect example.

The practical advantages of payments modernization

Speed to Market:

Modern APIs and microservices platforms offer agile tools and the flexibility to leapfrog to the next generation.

Services labelled adventurous two years ago are ready for prime-time. Big tech companies have proven the high turnaround from business process to code to deployment.

Now, you can scale endlessly in both private and open cloud environments with earlier worries about security and robustness gone, enabling banks to reshape their go to market strategy for fast ROI.

Evolve with client demands:

Payments innovations like real-time payments, peer-to-peer payments, BNPL, and 'request for pay' form the foundations of a next-generation payments modernization. This library of services represents evolving client demands, and necessitates speed.

Meeting their needs ensures you drive stickiness, strengthen relationships, and earn share of wallet spending. Offering these new payment methods eliminates transaction and processing fees, all while improving cash flow for you and your merchant customers.

Easing regulatory compliance:

Digitizing the process under a single hub enables banks to integrate risk management and controls within the workflow – easing the maintenance efforts and costs, while tailoring security levels.

Next-generation payment platforms shoulder the technical burden of regulatory updates, allowing banks to double down on activities that drive revenue.

Cost savings:

Significant savings can be achieved from the reduced effort and footprint needed to support the operation of a cloud-native, low-code payments platform. Financial institutions migrating from a legacy system to Diebold Nixdorf's modern Vynamic® Payments platform typically achieve savings between 20-50%.

However, organisations should not simply replicate the infrastructural complexity of their previous architectures. Consolidation of in-house silos will provide the ability to reuse certain components or services – such as validation, authentication, authorization, and fraud and risk routing.

Holding and managing funds isn't enough anymore:

Banks need to play a more active role in commerce journeys. From buying snacks at the local shop to financing a house, you need to be a consumer partner by simplifying services.

With better access to user data, FIs can better understand their customers' needs and behavior; and gross higher retention rates by delivering innovative payments products. Such an example is providing consumers (especially millennials) immediate access to funds, which can generate income of 3-5% per transaction.

Earn share of wallet spending:

Picture your wallet or purse. If you're like the average US citizen, you will have at least four credit cards. And if you listen to finance experts' advice, you should have four current accounts.

- Two checking accounts (one for spending money and one for bills)
- Savings account for emergency funds
- Second saving account for long-term saving goals

It's easy to switch banks now. The cradle-to-grave loyalty days are long gone, and minor issues can cut relationships short. Thanks to modern technology, consumers can quickly google alternatives that offer the services you don't and join in just a few minutes.

On the other hand, if you give your customer great experiences, you drive stickiness. With a modern system, FIs can tap into real-time data for a 360-degree view of customers, accounts, and transactions. This view enables the extension of hyper-personalized services, which results in consumers doing more transactions with you, increasing your revenue and attracting new customers.

Catering to a consumer experience-driven, omnichannel journey

In today's banking world, the gaps in serving customers arise from the fragmentation caused by siloed application architectures, which leads to siloed processes.

There is no easy way to interconnect those legacy processes to create a consistent customer journey and bank experience.

Look at how bank tellers and call center employees spend their time. They look at different systems and bridge the gaps to give consumers what they want. That's not a good customer experience.

That's why omnichannel experiences and real-time payments rank so high on the list of priorities for FIs.

Consumers want to move from channel to channel and from device to device, accessing products and services while completing tasks – seamlessly.

Flexibility is crucial. Can you orchestrate a fundamental set of core services specific to the channel, consumer and use case? Are they integrated into the consumer journey without them knowing they're there?

Payments should only be instruments behind the scenes to curate the best user experience on the customer journey. Everything needs to work now. It needs to be smooth and frictionless.

Choosing the right partner to embark on a payments modernization

Payments modernization is a journey, not a destination. Take a step back and consider what you believe to be your core competencies in that space. A common realization among FIs is that they cannot be everything to everyone, which means specialization.

1. It starts with a payment strategy: what you want to be and what you want to provide in the short, medium and long term. Afterwards, you can plan the steps taking you to those points.measured way.

2. This must be a top-down and bottom-up process because it impacts the whole institution. Everything you do will have revenue and profit at the forefront, but those take the backseat to the consumer experience.

   In this consumer-driven era, you need to think holistically about experience because revenue and profit depend on it.

3. Next, understand your internal skillsets to help figure out the best partnership model and best partner to bridge the gap and complement what you have. Once you do this, set the key performance indicators to measure success – crucial to getting results.

4. Make sure your desired platform and prospective partner will work with you to create a step-by-step, phased migration approach from the old to the new. It should detail exactly what happens in each migration step and show the value each one adds.

   The right partner will give you the security net underneath to complete the project on-time, in a risk-mitigated way, bringing your infrastructure into a much more flexible, agile and robust payment services landscape.

This approach enables a gradual scale down of the investment in legacy systems, while scaling up investment in new services when convenient, and shift across skills and knowledge in a measured way.

Be the bank of tomorrow, today

In the consumer's eyes, the bank of tomorrow knows them, understands their needs and is available 24/7, using any means of authentication, on whichever channel they want. They demand a personal approach. Nobody wants to feel mass marketed to anymore.

Freedom and flexibility are now core factors to succeed in the financial services industry because they allow you to easily adapt and expand services. But FIs face a monstrous challenge in this day and age of instant gratification and rapidly shifting consumer behavior.

As banks struggle to adapt, they are feeling the burden of their legacy mainframe systems. These structures are difficult and expensive to operate, and the skillsets needed to maintain them are thinning or leaving the industry. Not designed for the digital age we now live in, legacy systems are hindering innovation and adaptation in a time where those qualities are necessary for survival.

From delivering new products faster to increasing share of wallet spending and decreasing operating costs, the advantages of payments modernization are clear.

As financial institutions (FIs) move to replace their existing payment systems and embrace the future of payments, they need to be smart about what they need.

First and foremost, it's the technology platform itself that will secure your place in the future. Cloud-native software built upon 'reusable' microservices architecture enables you to seamlessly process transactions, keep pace with regulatory requirements, rapidly configure new payments offerings, and orchestrate transaction flows across multiple systems.

The solution must be reliable, secure and resilient. Does it support 'always on' services by enabling 24/7/365 round-the-clock processing while leveraging IT resources efficiently?

Secondly, choosing the right technology partner is critical. To ensure success, they should be proven in the financial space and understand the complexities of migration. Can they help you forge a risk-mitigated pathway to optimize resources and revenue growth?

It's time to think differently with regards to how you modernize your payments ecosystem and stay competitive in today's market. Transcend consumer demands and think Vynamic® Payments, a smart, cost-effective, risk-mitigated way to modernize payments.

Learn more and visit **DieboldNixdorf.com/Payments** to find out how you can leapfrog to the next generation in payments processing.