Pandemic has fuelled new ideas, Creating Opportunities.
How Payments-As-A Service Can Accelerate Digital Transformation in a Post-COVID World?

COVID-19 and the containment policies aimed at controlling it have changed the way we work, consume, and pay. The payment ecosystem has been transitioning to a digital model for some time, and the ongoing pandemic has accelerated adoption across demographics. Digital is now baked into customers’ expectations, with the need to be on a no-touch, low-touch mode and its value is immediately obvious to financial institutions.

Banks, and other industries alike, have adapted admirably to the immediate crisis in terms of ensuring access to critical services supply, however most of it could possibly be tactical workarounds for a quick fix. Given the far-reaching implications of COVID-19, banks will need to ramp investment in their digital agenda.

Digital transformation (DX) approaches entail anticipating changes in customer demand. This entails introduction of multiple technology initiatives, with the objective of simplifying the customer and employee experience. However, the recent adoption has been predominantly in the areas of Web, Mobile and Cloud. The obvious reasons is that these initiatives fall within potential digital optimisation requirements.

The current shifts owing to COVID-19 will drive the urgency to review and redefine the DX Strategy and find new ways to overcome the known internal constraints related to complex legacy, monolithic applications across the enterprise and business models which have been transitioning in parts. The need for a faster adoption in other DX areas is imperative and will define “the banks” post lockdown. In a COVID-19-shocked economy, with possibility of a stressed balance sheet, fast-tracking investments in digital transformation initiatives and new technologies presents a challenge as much as an opportunity.
The Pivot to a Payments-As-a-Service Model

In response to the need for agility and a renewed strategy, many banks will evaluate “as a service models” in specific areas, rather than buying or building software and running it in-house. Consumption-based As-a-Service (SaaS) is fast-becoming a standard delivery model as it offers:

- Shorter time to market
- Picking the best-in-class for specific business areas
- On-demand auto-scaling and flexible resources
- Service reliability on account of hardened and redundant environments
- Flexibility to pay for advanced technology out of their operating budget
- New out-of-the-box features can be turned on quickly and configured, promising a reduced time to ROI
- Connectivity from anywhere making remote working a reality

The payments space shows signs of further evolution of the delivery model. Payments-as-a-Service can help address new digital imperatives, accelerate digital transformation initiatives and open new avenues to revenue whilst providing relief from reduced IT budgets. By building Payments-as-a-Service into the heart of transformative approaches, banks benefit from:

**Integrated Payments Play:** The Payments-as-a-Service model industrialises global payments processing and can bring a complement of services onto the platform, enabling banks to cost-efficiently achieve economies of scale. From a bank standpoint, it offers a single point of entry to access the complete services eco-system. As an example, digital payments processing services bring omnichannel banking, unified commerce (online and instore) processing capabilities across digital touchpoints, payment servicing, merchant
management, switching capabilities, risk and fraud management, compliance, reconciliation services, API & partner management and analytics insights onto the same platform. Financial institutions have the flexibility to choose the services they need within the platform. Banks benefit from lower time and effort in managing multiple partner systems, a catalogue of pre-integrated applications, reduced integration compliance costs and improved reporting and reconciliation and faster time to market.

**API-Driven Marketplace:** Today’s banks are primarily consumer magnets, not producer magnets. Banks adopting to API driven market or open banking largely will match consumers to their own and/or select partner products or service. Payments- As-a-Service model can fill the API Banking gap in bringing complementing partner products and seamlessly match customers to products.

Many providers are pivoting to a marketplace model and have launched developer exchanges or API stores enabling collaborative partnerships. Banks continue to provide and develop their core services whilst simultaneously tapping into the wider ecosystem to multiply capabilities and reach. This might involve blending services to target deep and specific moments in customers’ financial lives – example instant credit at checkout. By taking advantage of APIs for services curation, banks can strengthen their digital portfolios and enrich service experience by offering greater choice for meeting precise needs.

**Co-existence with Legacy:** Today’s technology stack is monolithic and inflexible. For the foreseeable term, banks cannot offload legacy technology debt as replacements are expensive and time-consuming. Most have extremely complex switching and core banking systems that have evolved over time with a variety of bolted-on solutions and less-than-elegant technology. Payments as-a-Service platform, would help to preserve existing investments by integrating with existing technology stacks, enabling banks to adapt an incremental approach to modernization without compromising on the DX strategy.
Cost-Efficient Access to New Technologies: Technology is constantly evolving. From blockchain and augmented reality to artificial intelligence and cognitive analytics, the deluge of technology can be unnerving. With compressed acceleration cycles for adoption of digital and intensifying demand for new personalised services, banks need to rapidly test new technology initiatives driven, for e.g., AI and Cognitive Analytics, to deliver new digital experiences. Payments-as-a-Service model can de-risk new initiatives by bringing in new technologies in specific high-impact business areas.

Final Thoughts

PaaS-based innovation models can help banks to balance the short-term crisis today whilst preparing for the new normal to modernize their business models and accelerate their Digital transformation initiatives in payments, most interfaced business from both customers and employee alike. Businesses that can shift technology capacity and investments to PaaS platforms can mitigate the impact of the outbreak, future-proof growth and improve overall operations. Banks whilst selecting a Payments-As-a-Service provider need to assess:

- Experience in payments domain and hosted model
- Holistic offering by business line, roles, persona and user journey
- Extensibility using API and SDKs
- Predictable and robust roadmap to showcasing progressive investment visibility
- Flexibility to add new functions and schemes as the business evolves
- Compliance with scheme and regulatory requirements around data protection and location, security issues
- Transparent and flexible commercial models which can manage the varied complex marketplace models
To cite an example from a world-shaping event, over the six years of World War II an incredible 24 versions, or ‘marks’ of the Supermarine Spitfire aircraft were produced. Necessity is the mother of invention and when lives are on the line, that’s when we are really prepared to “move fast and break things”. COVID-19 presents a similar moment to transform for banks.

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FSS is India’s leading payment processor and products company, with three decades of experience in working with Tier One financial institutions to deliver improved business outcomes.

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