



Modernizing payments in the US

Webinar wrap-up





Introduction

Overview

Fundamental changes are happening in payments for US banks right now, and how they approach that is key.

Payments modernization in the US is not a new phenomenon, but in today's environment the nature of this exercise has shifted. Rather than focusing on incremental improvements, the industry is now aiming for a more fundamental transformation.

Modernization is being driven not only by developments in technology, but also by competition between banks and non-banks, as well as by the changing expectations of increasingly sophisticated clients. But with money movement itself increasingly commoditized, what possible use cases can today's transformation

journey offer for clients? How can fraud be mitigated effectively in a real-time world? And how are banks and fintechs working together in today's environment?

This report explores the ins and outs of this transformation journey, and the considerations that industry players should bear in mind when embarking on a modernization initiative.

Speakers:

- 01 **Bridgit (Bateman) Chayt**
SVP Head of Commercial Payments & Treasury Management, Fifth Third Bank
- 02 **Manish Baheti**
Head of Payments for Consumer & Small Business, Santander US
- 03 **Kunal Kochhar**
GTS Head of Product Development Global Payments, Bank of America
- 04 **Mark Ranta**
Senior Manager, Payment Technology Transformation, Ernst & Young
- 05 **David Scola**
General Manager – US, Form3



The path to modernization

Cloud, competition, and customer expectations are all shaping the path to modernization for financial institutions.

Around the world, efforts to modernize payments are well underway. Asia Pacific, for example, has seen large scale modernization efforts as the region's banks adapt to ISO 20022, while Europe has been embracing real-time payments for some time.

In the US, meanwhile, payments modernization has arguably been underway since the 1970s. But whereas this was previously a slow and incremental process of adjustment, the pace of change has now shifted, with banks aiming for a more wholesale transformation.

"At some point in the last few years – and you can point to RTP rolling out from TCH in 2017, and everything that's going on in the FedNow environment – the mindset has shifted from slowly modernizing our stack at the banks to a

more holistic change," says Mark Ranta, Senior Manager, Payment Technology Transformation at EY.

There are a number of reasons for this shift. For one thing, it has become all too clear that legacy platforms are fragmented, with a high cost of ownership. As Manish Baheti, Head of Payments for Consumer & Small Business at Santander explains, "Legacy payment architecture is often constrained by its inability to be scalable and responsive to changing client requirements."

With new payment channels emerging and being adopted across the industry, there is a growing expectation that banks will integrate these channels quickly and seamlessly. Other factors driving the focus on payments modernization include:

1. Cloud technology

Five years ago, discussions about putting mission-critical systems such as payment systems on the cloud were seen as off-limits. Today, however, this is increasingly seen as a necessary step in payments modernization.

2. Competition with non-banks

For traditional financial institutions, the need to compete with non-banks has been a major catalyst for change. As such, it is clear that banks need to invest in overhauling their legacy infrastructures.

3. Impact of the pandemic

The pandemic was an important catalyst for sharpening the industry's focus on moving to a digital-first mindset and driving payment transformation.

4. Changing client expectations

Clients have become increasingly sophisticated and expect to access bank services whenever and however they want, with a consistent experience across channels. They also expect all activities to be seamless, including fraud mitigation, authentication and exception management processes.

"The moment we really started to compete with non-banks, we needed to go into a different weight class, which means building new muscle and shedding the extra pounds that are in the legacy infrastructure. When we were all competing with each other, it was OK to carry the extra weight, but non-bank competition has been a huge catalyst for banks to make this investment."

Bridgit (Bateman) Chayt, SVP Head of Commercial Payments & Treasury, Fifth Third Bank



Where are the use cases?

In transaction processing, money movement itself has long been commoditized.

The business case and opportunities lie in the value that can be added on top of this. In particular, transaction processing engines can play a key role in helping clients automate business processes or harness open banking opportunities.

Use cases can be found anywhere that involves payments and a money movement experience. Banks in the US arguably have a strategic advantage because of the bank-centric model that is being used for the new rails. If designed properly, the workflow involved in real-time push payments – namely initiating from an Originating Depository Financial Institution (ODFI) and sending to a Receiving Depository Financial Institution (RDFI) – can be used to provide clients with new and seamless ways to reach the bank.

One notable area of opportunity lies in the creation of products that fulfil the goals of specific communities. Many fintechs are currently focusing on fairly generic

product offerings, such as B2B payments, bookkeeping or consumer lending. But there is major potential for community-specific offerings, such as environmentally conscious products that support ESG strategies, or offerings that are aimed at gig economy workers or LGBTQ communities.

“Customers are looking for you to be where they are, and they’re in these other applications. So making it easier to be found and utilized in these applications has to be a core guiding principle.”

Mark Ranta, Senior Manager, Payment Technology Transformation, EY

Getting started

Understanding the goal of your modernization journey will help shape the steps you need to take.

Knowing where to start on a payment modernization journey isn't always straightforward. For one thing, building everything from scratch end-to-end is unlikely to be the best approach.

As Kunal Kochhar, GTS Head of Product Development Global Payments at Bank of America, advises, "Build what you can at home, and leverage the solutions that are available to you. The future is all about ecosystems, and you don't want a situation where you're undertaking too many things on your own in a payment modernization effort."

The importance of partnerships is only likely to grow, with an ever-greater focus on strong ecosystems that comprise customers, financial institutions, regulators, fintechs and other partners. Also key are the technologies that will enable new integrations and end-to-end customer journeys, such as APIs, event-based architecture and microservices.

While knowing the goal of any modernization exercise is critical, it's also important to pinpoint which activities and goals are not going to be included in the project. "For example, we understood that we were not doing a system upgrade,

or trading something out like-for-like," says Bridgit (Bateman) Chayt, SVP Head of Commercial Payments & Treasury, Fifth Third Bank. "We were taking an opportunity to reinvent how we work, in addition to the technology that supports that work."

Equally, the best approach will be different for every firm, and will be defined by factors such as the bank's footprint, clientele and goals. As such, it's important to focus on the developments that will be most of interest to the firm's specific client base.

On another note, it's important to recognize that adopting a new technology may not be the best solution in every situation. Different firms are at different points in their journeys – and in some cases, smaller or medium sized banks may find it is more important to fix existing inefficiencies, rather than moving to the cloud or adopting a faster queue solution. Once a more efficient architecture has been achieved, firms will then be better placed to adopt a cloud infrastructure that can enable them to scale up faster.

"Something to consider is the need to identify digestible bites that don't have you so tied to the modernization that you can't move ahead in other areas, or take advantage of other opportunities until it's done."

Bridgit (Bateman) Chayt, SVP Head of Commercial Payments & Treasury, Fifth Third Bank

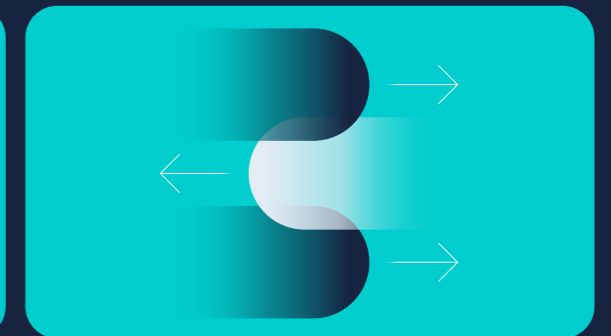
Transforming payments for value and growth

With increasing pressure from many angles, banks now understand that it is time for them to begin on their modernization journey. By taking a holistic, long-term view on all of the changes that are happening in the sector, the ability to modernize their payment architecture will set them up for future success. To do this there are four key steps that need to be considered:



Define your vision

Look beyond compliance and complexity and establish a bank-wide vision that tells a customer-centric story about new services and products.



Budget with agility

Take a bottom-up approach to ensure each program is adequately funded and properly monitored.



Put the right people in the right place

It takes the right people to make the right change. Weaknesses in your operating model should be addressed by streamlining governance and appointing the right human resources leaders.



Look to the cloud

Replace legacy systems with modern, flexible platforms like the cloud and API architectures.



Combatting fraud

“The whole fraud infrastructure we have currently is outside the payment infrastructure, or seeking to plug into the payment infrastructure. It needs to get to the edge of the customer experience, and it has to reside within the whole value chain. That is what will provide real-time fraud prevention.”

Manish Baheti, Head of Payments for Consumer & Small Business, Santander

Where real-time payments are concerned, one important question is how fraud risk can be managed effectively, particularly in a world in which transactions are expected to be confirmed instantly.

Key to this effort is the ability to access the right data, and mine that data in real-time. Rather than reacting to instances of fraud that have already taken place, it is important to move towards a model in which customers can access instant fraud mitigation, and stop fraud before it actually happens.

Another important enabler of fraud prevention is the growing acceptance that this is a shared undertaking between financial institutions and their commercial customers. Education is an important

element of this, and banks are becoming more proactive at communicating fraud prevention advice both to consumers and to corporate customers.

EY's Ranta advises: “It's a community problem, and getting better educated is going to be key. Don't sit back and wait for regulators to come in and give us guidance. We as an industry need to start working bank-to-bank, bank-to-corporate, corporate-to-corporate, to really look at how we help solve this problem.”

Changing dynamics in bank-fintech relationships

There was a time when fintechs were seen as a major threat to banks.

But today, the focus is more on how banks and fintechs can partner with each other. With a greater focus on building a strong ecosystem and increasing stability for payments solutions and customers, these relationships are more important than ever.

Both parties have something important to bring to the table. Fintechs can move fast and pivot more rapidly to changing market conditions and customer needs. Banks, meanwhile, bring the expertise, trust and access to industry rails that fintechs need to create innovative new products and services.

With the rise of Banking-as-a-Service models, banks are harnessing myriad new ways to monetize their existing infrastructure, customer data and connectivity.

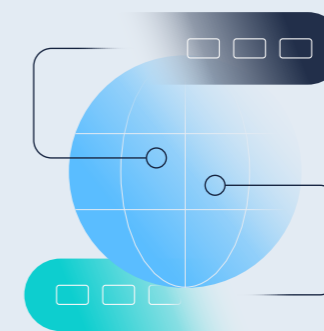
"Banks need to act more as software companies. We're learning that from our fintech partners, and absorbing it into the talent we acquire, the way we go to market, and the different types of relationships that we're building with clients."

Bridgit (Bateman) Chayt, SVP Head of Commercial Payments & Treasury, Fifth Third Bank

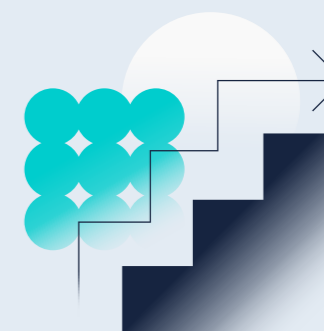
How banks are harnessing new ways to monetize existing customer data and connectivity:



Providing incubator services, funding start-ups and acquiring established fintechs in order to extend their product offerings.



Building marketplaces for third-party apps and providers.



Offering their core functionalities as a white label service, thereby monetizing some of their existing infrastructure.

Journey of transformation

Payments modernization is about people as well as technology

Both of these elements need to be addressed as the industry moves forward. Attracting the right talent, and developing existing staff in the right way, is an important factor for firms looking to modernize their payments. Equally, customers need to be at the forefront of any transformation effort. As such, the focus should be on solving challenges for customers, rather than on implementing new technology.

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On another note, it's important to recognize that payments modernization is not a one-off exercise, but a longer journey of transformation that will continue to evolve as volumes shift and new payment types continue to evolve. As Kochhar points out, "You will never have enough money and enough approvals. There will always be a higher priority thing hanging over you that needs to be done before you do the transformational journey. And you will have to change along the way."

As such, he advises that people should not be afraid to change direction during the project if the need arises. "It's better

to do that in the early stages, rather than committing all the way and then figuring out that there's another transformation journey you have to go on. Commit to it, but don't overcommit."

In conclusion, the current payment modernization effort in the US is not a destination, but a journey. As such, banks need to meet clients' evolving expectations with new and appropriate solutions – but they also need to embrace the flexibility needed to remain competitive in the future.

"This is a never-ending journey of transformation that we are undertaking. The best way to address the unknown is to build in as much flexibility into the solutions that you're architecting for today. You can guarantee that in five years the landscape is going to change."



David Scola, General Manager, Form3



About us

Our vision is to be the world's most trusted provider of payment technology.

We provide Banks and regulated fintechs across the globe an end-to-end managed payments service that delivers complete payment processing, clearing and settlement to the universe of payment schemes through a single API. Our platform handles everything so you can focus more on serving your customers' needs and less on managing payments infrastructure.