

Reimagining payments:

Preparing for a digitally connected world



Abstract

As the financial services industry accelerates into the digital future, delivering exceptional experience across all touchpoints, especially payments, is emerging as the cornerstone of long-lasting customer relationships. Emerging technologies have enabled faster, more open, and invisible payments. Experience centered on digital self-service has now become a strategic differentiator in financial services, and the payments segment is no exception to this trend. This is driving banks to reexamine priorities, revisit the digital agenda, and ensure that their payment ecosystem and offering portfolio are adequate to support the rising customer demand for digital services. Such a comprehensive evaluation, however, has highlighted the lack of readiness of banks' systems and the need for increased focus on the unbanked and underbanked segments. This white paper discusses the measures necessary to enhance banks' systems and processes to ensure seamless digital payment services and contends that banks with strong fundamentals and focus on a digital-first payment strategy are the ones most likely to emerge as future leaders.

Adapting to a digital-first world

Payments constitute the backbone of a nation's economy. The role of the payments industry has always been critical. With more and more people switching to online methods for shopping as well as to manage their finances during the pandemic, digitalization has taken center stage through increasing electronic payments and contactless methods, and a sharp reduction in cash usage. At the same time, banks will need to come closer to their customers to reaffirm the trust placed in their brands by customers.

The need of the hour is modernization programs focused on real-time payments, 24x7 availability, bundled and unbundled products, and innovation to make digital payments mainstream, while ensuring resilience, continuous availability, and stability. Financial institutions still grappling with legacy environments will need to define a strategy for modernization across three key dimensions – growth, value, and resilience – which will likely overlap (see Figure 1).

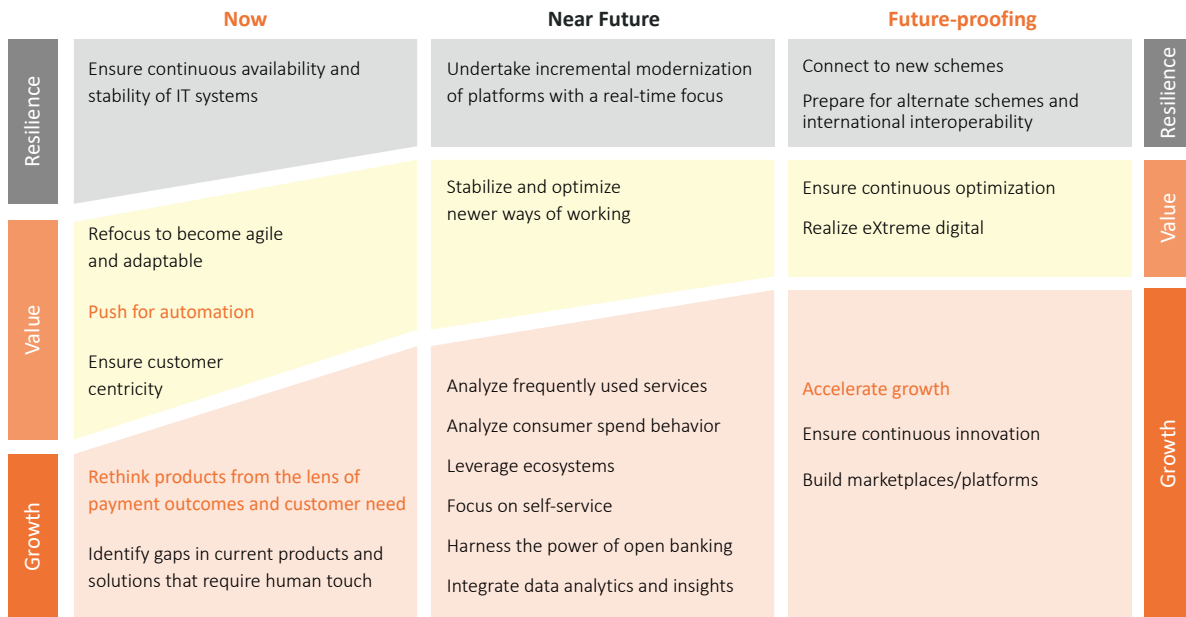


Figure 1: Key dimensions of a future-proof payments strategy

Immediate steps

The industry has witnessed a tremendous spike in digital transactions as evidenced by PayPal reporting its highest ever transaction volume on May 1, 2020¹, and registering an addition of 7.4 million net new active (NNA) accounts during April 2020.² Clearly, banks need scalable infrastructure to meet the increased demand. While global banks have been investing heavily in digitalizing payment value chains, these initiatives have largely revolved around achieving compliance with regulations, such as Open Banking, aimed at fostering innovation and competition. Since its launch in the UK and Europe in early 2015, Open Banking has spread to other countries. Some economies such as those in the ASEAN region took the digitalization initiative much further to bring about harmonization and interoperability of digital frameworks. These initiatives have enabled the development of new solutions to fill the gaps in financial institutions’ digital payment offerings.

Consequently, corridors that have embraced Open Banking are likely to see cooperation and collaboration that will foster the reality of global-interconnected-cross-border frictionless commerce resilient to unforeseen events. This coupled with the need to reduce paper-based operations³, will require banks to rapidly scale up digitalization initiatives. The need to increase the pace of digital transformation on priority has, however, exposed gaps in existing products and solutions. To address this, we believe that banks must immediately expand access to digital touchpoints, underpinned by stability, security, availability, and reliability, with special focus on some key areas.

[1] PayPal, PayPal’s Q1 2020 Earnings Call, May 2020, Accessed October 2020, <https://investor.paypal-corp.com/events/event-details/paypals-q1-2020-earnings-call>

[2] PayPal, PayPal Q1-20 Investor Update, May 2020, Accessed October 2020, <https://investor.paypal-corp.com/static-files/60e5ec2b-a7f0-40a6-b86a-88ce1494c9eb>

[3] TCS, Going Paperless: A Strategy for Financial Institutions, February 2020, Accessed October 2020, <https://www.tcs.com/going-paperless-a-strategy-for-financial-institutions>

Commercial banking

In many economies, the interactions between consumers and businesses were completely digitized for funds movement no matter the underlying purpose. For instance, disbursement and collection of taxes, payment of dividends, direct government benefit transfers, payment collections, and escrow payments are completely digitized. With many businesses now propelled into the online space, the provision of fully digital options for consumer-to-business (C2B) and business-to-business (B2B) transactions will fast emerge as a key imperative in commercial banking. Following the pandemic-induced drop in cross-border revenues and activity, treasurers and corporate bankers will demand more transparent and real-time insights into payments. In addition to cross border initiatives such as SWIFT GPI, banks can use the move to the ISO⁴ messaging standard and features such as request-to-pay to support interactions between corporations and their customers to create digital channels for seamless funds transfer.

Business and personal finance management

As individuals and businesses come out of the pandemic, they will look toward financial institutions for advice on how to better manage their finances and plan for the future. With rising unemployment and reduced revenue, customers will increasingly rely on their banks for guidance on ensuring financial wellbeing. Banks must therefore offer personal finance management (PFM) services and help customers manage their changed financial situations. To achieve this, banks will need to ramp up PFM solutions using analytics frameworks to derive crucial customer insights, anticipate emerging financial and credit needs, and craft products to meet those needs. Banks must quickly open data access in areas not governed by Open Banking and Payment Services Directive 2 (PSD2). Regulators across the globe must act quickly by extending Open Banking data sharing principles through the Open Data and Open Finance initiative, especially as PFM solutions underpinned by data analytics will likely see greater global uptake in the future.

The unbundling and/or bundling of existing product and service propositions triggered by open banking and open data will drive the creation of new products that meet customer needs end-to-end. To create new offerings, financial institutions will need to lean on the competencies of other firms in the ecosystem. Consequently, ecosystem collaboration will emerge as a prerequisite to new product innovations and value propositions.

To shift from the traditional business model to a digital ecosystem model, banks must:

- Adopt 'digital-first' and non-linear distribution models.
- Switch strategic focus toward a data-driven enterprise to continuously enrich the product proposition and client interactions by expanding the use of data beyond digital transactions.
- Embrace open banking to continuously bundle or unbundle services, products and platforms for hyper-personalization.
- Eliminate platform and organization siloes and transition from monolithic platforms to a platform that facilitates composable, on-demand customer interactions and enables repurposing platforms to cater to complex and diversified customer journeys.
- Enhance collaboration and partnerships to track customer journeys, both within and outside financial boundaries.

[4] TCS, ISO 20022 Standard: Understanding the Impact on Payments, December 2019, Accessed October 2020, <https://www.tcs.com/iso-20022-standard-understanding-the-impact-on-payments>

Financial inclusion

Consumers without access to basic banking facilities have been the most affected during the pandemic. Addressing the needs of this segment through digital channels has become a priority, especially as governments are preferring to disburse financial aid through digital channels. Banks must grab this opportunity and rapidly roll out digital solutions to bring the underserved and unbanked population into the formal banking fold, in turn expanding customer base for their products and services. India and Sweden have successfully leveraged digital IDs to substantially reduce the under-banked and unbanked populace and advanced toward a cashless economy. Regulators will need to assess how they can enhance regulation to further support digital account opening to expedite access to banking facilities and drive financial inclusion.

Payment change programs

Payment stakeholders are in the midst of multiple engagements to implement future-proof, highly resilient infrastructures, and multi-currency clearing schemes. However, these programs are still far from completion and remote working is likely to further delay them. Banks must enhance remote working solutions to ensure that change programs remain on track as infrastructure improvement initiatives remain critical to adequately support digital customer engagement and digital payment volume growth in the future.

Digital currencies

Research into the options to transform paper currency into digital forms will accelerate given the rising demand for contactless banking. Central bank digital currencies (CBDCs) were a hot topic in Sibos 2020, and several countries are experimenting with the first live trials expected this year. We expect retail payments to be the first to switch to digital currencies as opposed to high-value transfers. Should this become a reality, banks will need to review their current payment infrastructure to ensure that they have the capabilities necessary to implement CBDC payment methods.

Financial crime management

The dark side of an increasingly digital world is the expanding attack surface for cyber fraud. Digitally savvy fraudsters strike at vulnerable individuals and organizational layers.⁵ Given that the industry is moving toward making digital payments easier and seamless, banks must step up surveillance mechanisms to detect threats across multiple organizational layers and ensure adequate security controls are in place by reassessing the effectiveness of threat identification and management processes.

The bottom line

With businesses and consumers relying more and more on electronic and remote payment methods, banks will need to engage and connect digitally at every customer touchpoint, both globally and locally, to emerge as winners. Expanding the portfolio of digital payment solutions, increasing self-service capabilities, and building open platforms to enable partnerships and new offerings through ecosystem play have become paramount and immediate. In addition, staying connected with customers, identifying new needs by tracking the gaps in digital service, and proactively designing and implementing new digital offerings to meet them will be key. Customer obsession, through increased digital engagement and knowledge of the customer, is the path to winning loyalty and stealing a march over the competition.

[5] Finextra, UK sees sharp rise in impersonation scams as crooks exploit Covid-19, September 2020, Accessed October 2020, <https://www.finextra.com/newsarticle/36568/uk-sees-sharp-rise-in-impersonation-scams-as-crooks-exploit-covid-19>

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