Whitepaper

The Evolving World of Payments

Published on: September 2012  |  Author: Swati Dublsh
Table of Contents

1. Overview / Abstract ............................................................................................................................................................................ 3

2. The Payments Industry - A Time for Change ................................................................................................................................. 3

3. The Move Toward Non-Cash Transactions ..................................................................................................................................... 3
   3.1. The Cost of Cash...................................................................................................................................................................... 3
   3.2. Cards Emerge as the #1 Non-Cash Payment Instrument......................................................................................................... 3

4. Technology for Payments – The Next Frontier .............................................................................................................................. 4

5. Payment Analytics – Bringing Intelligence to Payments ................................................................................................................ 4

6. Hexaware Outlook ............................................................................................................................................................................. 5
   6.1. Hexaware’s card payment analytics solution offers .................................................................................................................. 6
   6.2. The benefits of using this solution are ....................................................................................................................................... 6
   6.3. Hexaware in BFSI ...................................................................................................................................................................... 6
1. Overview/Abstract

Evolving customer needs, stricter regulatory requirements, and continuous innovation are driving the global payments industry to change resulting in a significant impact on existing technology investments. This white paper examines the outlook for the payments industry, the current IT landscape within the industry, and how payment analytics have an important role to play in this evolution.

2. The Payments Industry – A Time for Change

The global payments industry is abuzz with change. While the recent economic challenges have affected the rate at which volumes of non-cash payments have grown, research indicates that these volumes will reflect more robust growth from here on in light of a more stable macroeconomic environment. These developments combined with stricter regulatory guidelines, progressive industry initiatives, evolving customer expectations, and innovations like mobile and contactless payments have ushered in an era of technology-driven, boundary-less transactions.

For banks and payment service providers who have, until now, competed on the back of age-old legacy systems, this means a complete reevaluation of existing technology investments. With newer payment avenues and compliance requirements emerging every so often, the industry needs to modernize the engines that drive transactions in a way that is scalable to meet dynamic market requirements.

Given this context, payment analytics are set to play a pivotal role in enabling superior business performance by providing relevant, accurate, enterprise-wide information at the right time. Assessing past trends, examining current trends, and forecasting future trends, payment analytics are based on transactional data, which are sliced and diced according to business requirements.

3. The Move Toward Non-Cash Transactions

One of the most interesting trends we have observed as the global economy gradually recovers from the financial crisis is the constant growth in volumes of non-cash payments. Since crossing the 260 billion* figure in 2009, industry estimates suggest that non-cash payments have displayed more robust growth driven by the CEMEA (Central Europe Middle East Africa) region and mature and emerging Asian economies after the financial crisis. While non-cash payment volumes in developed economies of North America and Europe have been growing marginally owing to higher penetration of non-cash payment instruments, these regions remained the largest contributors to non-cash payment volumes.

3.1. The Cost of Cash

The use of cash in daily transactions is still hugely prevalent across the world for small ticket purchases. However, the growth of non-cash payments is actually good news for banks and economies. With the high costs involved in the management, distribution, processing, and handling of cash, banks and economies stand to gain tremendously by promoting the use of non-cash transaction mechanisms not only in terms of cost savings, but also to enable greater transparency within the financial system.

3.2. Cards Emerge as the #1 Non-Cash Payment Instrument

When considering the increase in volumes of non-cash payments, it is significant to note that card usage (credit and debit) has increased steadily over the past decade to form more than 40%* of total non-cash payments in most markets. Another important factor in the growth of non-cash payments has been the increasing use of the internet to make payments across devices like desktops, laptops, tablets, and mobile phones, all of which are expected to grow even faster in the near future. In fact, mobile payments are set to play a crucial role in improving financial inclusion in emerging markets as they offer a secure and cost-effective medium for various types and sizes of transactions.

Recent innovations such as contactless payments and Near Field Communications (NFC) technology, while still in their nascent stages of consumer acceptance, are sure to have an impact on the way consumers transact.

For banks and payment service providers, this highlights a paradigm shift in the way transactions will take place in the near and foreseeable future. It also means that they will need to establish a technology infrastructure that will be able to not only keep up with market requirements, but also comply with existing and planned regulatory guidelines that have been triggered by the recent financial crisis.

In the next section, we will take a closer look at the current technology being utilized in the payments industry and the drivers for change.
4. Technology for Payments – The Next Frontier

Most payment technology deployed by banks today include decades-old legacy systems that are large, complex, and inefficient. To add to that, these systems have been updated in a piecemeal manner over time making them even more difficult to maintain.

Some of the most common issues that banks face with regard to existing payment systems are:

- Limited capacity to handle high payment transaction volumes
- Risk of support being discontinued by vendors
- Difficult to modify quickly as they have rigid architectures
- Impede a unified business view of payments because of lack of integrated structure
- Pose a threat to the organization’s regulatory compliance policies because updates/modifications are frequent and complex
- Cannot be operated transparently and rapidly due to inefficiency

For banks operating on legacy payment systems, overhauling them is not a choice anymore. The consequences of not investing in new payment technology pose considerable operational, business, and financial risks. With technology, consumers, and regulatory guidelines evolving continuously, banks need to radically change the way they operate to stay competitive. They can ill afford to lose market share and avoid entering new markets because of an inability to fuel expansion through better products or leverage new channels effectively.

Regulatory compliance that increased after the financial crisis has become a challenge because modifying unwieldy legacy systems quickly and cost-effectively is complex. With multiple, disparate systems in operation, bringing all of them up to speed with the latest regulations tends to be a highly resource-intensive job and entails increasing maintenance costs.

Together, all of these factors are pushing banks and payment service providers to reevaluate current technology investments and seek next generation solutions that will enable them to remain a step ahead of the game.

5. Payment Analytics – Bringing Intelligence to Payments

As we have seen earlier, card (credit and debit) have become the non-cash payment instrument of choice the world over. Spurred by robust growth in emerging economies and steadily increasing transaction volumes in North America and Europe, the use of cards have been further bolstered by the emergence of online e-commerce transactions and mobile payments. This has led to an explosion of valuable card-driven transaction data that can be utilized by banks to gain a unified view of enterprise-wide, transaction-related data, improve customer service, and maximize cross-sell/up-sell opportunities.

Currently, banks face a range of issues when it comes to being able to use card transaction data:

- Poor quality of information
  - Do not have a consolidated, enterprise-wide view of card transaction data
  - Reports from disparate applications require compilation and format standardization
  - Reporting errors creep into the data as a result of manual intervention
  - Poor level of drill-down and analysis of information

- Decision-making limitations
  - Lack of critical information impedes good decision-making
  - Incomplete information forces decision-makers to make calculated assumptions
  - Prolonged information gathering process delays decision-making

- Dependency on IT Team
  - Business users are dependent on the internal IT team to access information and reports
  - Takes time and effort to coordinate with product vendors

- Delay in time-to-market
  - Delay in detection of problem areas leads to drop in service levels
  - Time required for number crunching slows business development - introduction of new products & services, campaigns, promotional activities, and cross-sell/up-sell opportunities
In such a scenario, what banks need are reports and dashboards that present sliced and diced historical and real-time data giving a 360-degree view of payment activities across channels, locations, schemes, and card types. A platform-agnostic analytics solution ensures that it can utilize from disparate applications to deliver superior business intelligence.

6. **Hexaware Outlook**

Acknowledging that change is afoot in the payments industry, Hexaware offers key solutions in the payments analytics space that equip banks with the business intelligence to outperform the competition.

The Hexaware solution is to capture transactional data from the switch before slicing and dicing data into readily consumable reports and dashboards for various business stakeholders.
6.1. Hexaware's card payment analytics solution offers:

- Industry-proven KPIs and metrics
- Customizable reports & dashboards
- Real-time and historical analytics
- Predictive analytics
- Web-based access
- Powerful visualization features
- Extensive coverage for all stakeholders
- Alerts & notification capabilities
- Card payment domain model with pre-built ODS & data mart
- Customizable ETL & reporting tools
- Multi-level data security
- Minimum touch points

6.2. The benefits of using this solution are:

- Greater Business Value
  - Improved business productivity
  - Accurate reporting
  - Quicker decision-making
  - Increased business user enablement – less burden on IT
- Lower Total Cost of Ownership (TCO)
  - Shorter implementation cycle
  - Reduced risk and cost of manual errors
- Rich BI Delivery Framework
  - Scalable
  - Extension of business content
  - Platform-agnostic

6.3. Hexaware in BFSI

Listed among the Top 100 Global Providers of Financial Technology Services at FinTech 100 2010, Hexaware offers end-to-end IT, BPO, Risk Management, and Compliance Solutions that are specifically tailored for banks, investment banks, financial services, and insurance companies worldwide.

Hexaware’s cost-effective solutions in the areas of Core Banking, Payments, Leasing, and Regulatory Reporting have been instrumental in achieving higher customer satisfaction. Our deep domain knowledge and superior technology expertise has helped several world-class banks to stay a step ahead of the game.