THE FUTURE OF RETAIL PAYMENTS

Identifying the opportunities

Contents

Introduction

Overview

Retail payments is one of the fastest moving markets in financial services. To provide insight into the key future trends, technology analyst Omdia has partnered with Financial Software and Systems (FSS), a global vendor of payments products and transaction processing, to produce The Future of Retail Payments white paper. Omdia independently conducted a survey with a focus on issuing, acquiring, and back office with 214 senior payments executives at retail banks. The survey was carried out before the COVID-19 pandemic and covered 19 markets in five regions: Africa (Egypt, Kenya, Nigeria, South Africa), Asia (India, Indonesia, Malaysia, the Philippines), Europe (Belgium, Denmark, Germany, the Netherlands, Sweden, the UK), the Middle East (Oman, Qatar, Saudi Arabia), and North America (Canada, the US).

Investment in retail payments is likely to increase, albeit modestly, despite the impact of COVID-19

Before COVID-19, 85% of banks expected increases in spending on retail payments

Retail payments is a strategic priority for many banks. Over the last three years, 83% of surveyed banks have increased their investment in retail payments, even though most players were also seeking to reduce their wider cost base. Before the pandemic, the majority of banks also expected further investment in the space, with 85% of players expecting increases in spending through 2021.

The arrival of COVID-19, however, has significant implications for investment plans. From a business perspective, many banks are grappling with soaring delinquencies on business and consumer loans, which will in turn result in severely depressed operating income and profitability for at least the remainder of this year. Accordingly, technology spending for 2020 will also be affected as banks introduce cost control measures to conserve capital, manage liquidity, and mitigate damage to profitability. Omdia's preliminary forecast is that there will be a decline in banking technology spending of 2.8% in contrast with a prepandemic forecast of an increase of 4.2%.

However, COVID-19 will also act as a driver for technology investment, particularly for digital transformation. The pandemic is accelerating the move toward digital, driving laggard customers to use digital channels, and is also bringing about an increase in the use of electronic payments rather than cash. There are also new fraud threats to combat as criminals exploit the changing environment.

Omdia’s view is that while larger increases in budgets for retail payments are now less likely, overall investment is still likely to rise, although investment programs may be extended and rephased to reduce capex. There are, of course, geographical differences between markets and individual priorities for each organization, but when the drivers for investment before the pandemic are examined, certain consistent themes emerge, and many of these will still prevail after COVID-19.

One notable example is fraud. Incidences of fraudulent transactions are rising globally, particularly in the card-not-present (CNP) space, given the shift to e-commerce, and this is a trend that will only be accelerated by the pandemic. Another theme is the use of new technologies, notably artificial intelligence (AI), cloud, omnichannel experience, data analytics, and digital enablement. Many banks were already considering increasing their use of these to improve operations, and the pandemic will only provide more impetus for their adoption.

Summary

When Omdia asked banks about their experiences and expectations of their payment services and how these are shaping plans for future investment and development, certain clear themes emerged: the need to improve back-office processes and the need to invest in new technology, notably AI:

- Globally, 85% of banks expect **spending on retail payments to increase**, a percentage that increases to 94% in North America.
- Eighty-nine percent of surveyed banks agreed that **improving back-office operations is a high strategic priority**, a trend that is reflected across all geographical regions.
- Eighty-six percent of banks are **actively investigating increasing the use of AI** in their issuing businesses.

From a product development perspective, the standout areas of current and future investment include mobile and real-time payments, while payment gateways are key in merchant acquiring:

- Eighty-seven percent of banks stated they were currently investing in or had **plans to invest in real-time payments**, a percentage that increased to 96% for both Asian and North American banks.
- **Reconciliation is a further key area for investment**, with 82% of respondents making or planning investment in this space, a likely necessity for many banks given the move to real-time payments.
- Globally, **payment gateways are the product most in demand from merchants**. Accordingly, 82% of banks are currently or planning to invest in the product area, this emphasis will only increase thanks to COVID-19.

While it is a less prominent sector than mobile or real-time payments, prepaid cards continues to attract investment, with over three-quarters of banks putting funds into the space:

- Seventy-eight percent of banks stated that they were **investing or are currently planning to invest in the prepaid space**, with interest being particularly strong among African banks, where the percentage rose to 86%. Of those banks investing in prepaid, general purpose offerings were ranked as the number one investment areas by 32% of banks, followed by forex cards (20%), and payroll cards (17%).

Automation is becoming increasingly important across retail payments, and banks foresee an increase in software-as-a-service (SaaS) consumption in payments. The COVID-19 pandemic will also act as a driver for digitally enabled processes and SaaS adoption:

- **Automation is widely implemented in authentication, business intelligence, and reporting,** with 74% and 72% of surveyed banks respectively having fully or partly automated processes in place for these areas.
- Plans to **increase the use of automation are particularly evident in reconciliation**, where 30% of banks expect increases, and fraud, where 28% of respondents declared plans for increases.
- **On-premises solutions dominate the payments space**, being used in 44% of cases. The adoption of SaaS applications looks set to increase slightly from 28% in 2019 to 31% in 2021.

Recommendations

All retail banks will have their own strategic priorities, which will vary according to the needs of the specific markets in which they operate, their organizational structure, and the technology infrastructure that they already have in place. Yet there are also notable similarities between organizations. This study found many core commonalities in drivers and plans among banks for retail payments, thus suggesting a number of key recommendations that players active in the market should consider as they prepare their strategies and plans:

- **Retail banks should assess their back-office processes, such as reconciliation, and determine where improvements can be made through automation.** Modernization of back-office processes has typically lagged behind advances in the customer-facing frontend. However, with the ever-increasing growth in electronic payments and the shift toward the real-time transactions demanded by customers, banks need to ensure back-office and middle-office systems are also up to speed and match the omnichannel expectation. Investigating business processes and understanding the number of steps in servicing a real-time request will help to identify use cases for digital transformation and reduce friction and the need for manual intervention.
- **Retail banks should evaluate plans to benefit from the move to real-time payments and make investments in their own infrastructure where needed.** Real-time payments infrastructure, particularly when combined with open APIs or ecosystems and marketplaces, opens up a wealth of opportunities. Banks can look to build overlay services to add value to consumers and businesses alike. Examples of possible services include instant person-to-person (P2P) payments, request-to-pay services for billing customers, and instant corporate payments.
- **Those banks active in merchant acquiring should appraise their payment gateway offering and ensure it is fit to meet increased demand due to the pandemic.** Retail banks recognize the already strong level of demand for payment gateway services from merchants, but this level of demand is increasing in the face of COVID-19, which is driving e-commerce volumes. Competition in the merchant acquiring space is high, and banks need to ensure their offerings can compete effectively in this booming market.

- **Those active in the prepaid space should investigate opportunities in foreign exchange and payroll.** Before the pandemic, there was significant interest from banks in the foreign exchange prepaid segment. This interest will have since waned because of international travel restrictions but is likely to return as travel resumes. In the payroll space, legislation in regions such as the Middle East is driving investment and leading to innovation. Payroll represents an opportunity to serve the unbanked and disburse other benefits such as health insurance and meal allowances.
- **Banks looking to combat rising fraud levels should consider the possibilities offered by automation and AI technologies.** Payment fraud levels are rising globally, particularly in the CNP space, and COVID-19 will only exacerbate this issue. It is imperative for banks to find new means of combating the problem. Embracing data-driven products providing real-time decisioning insights using machine learning and AI technologies can assist with improving fraud detection by reducing false positives and can speed up investigations. Moreover, it should also increase adaptability in responding to new and evolving threats.

Banks are Embracing New Technologies to Improve Payments Operations

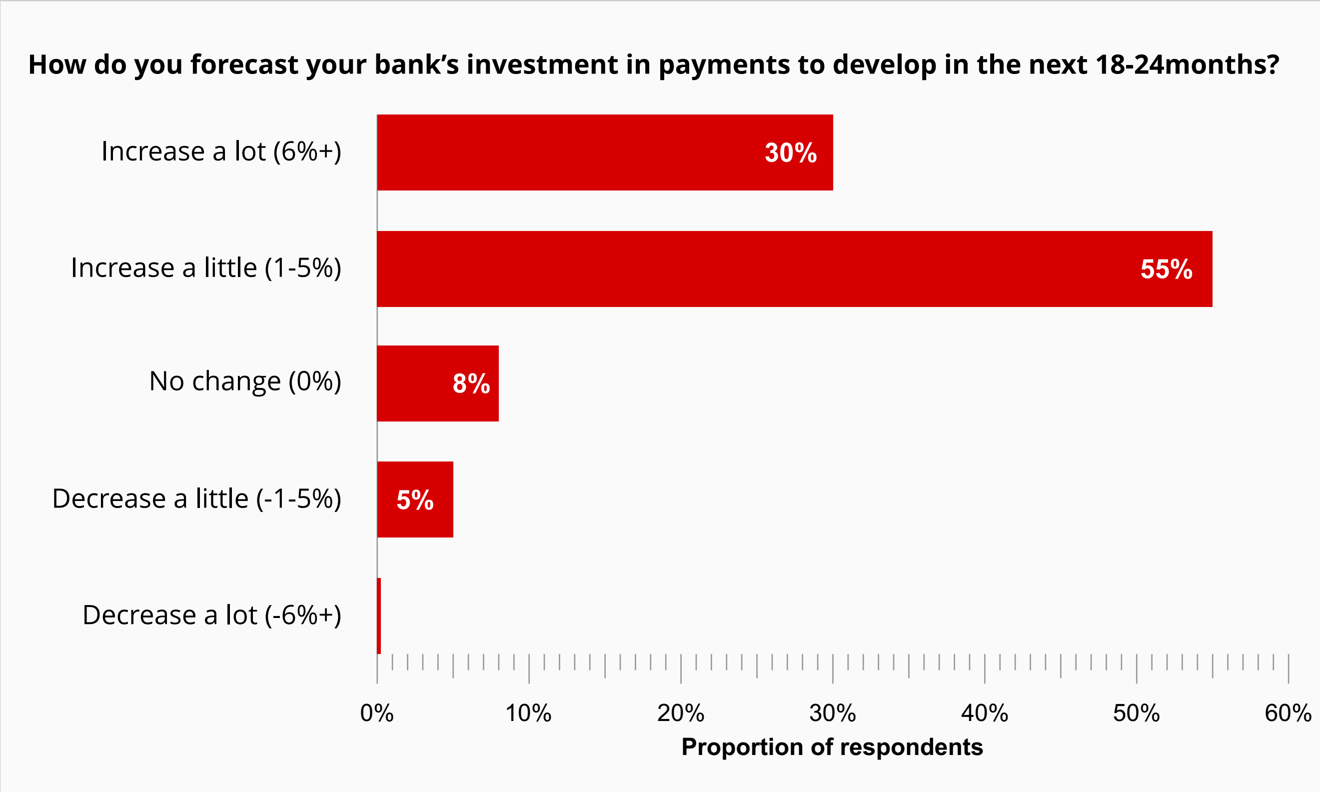
Investment plans: Spending on payments is increasing across all regions and all sizes of banks

Fifty-five percent of banks expect budget increases of 1–5%, while 30% expect increases of 6% or more

While the COVID-19 pandemic will naturally have an impact on banks' investment priorities, retail payments is one area that is still likely to see investment growth.

Over the last three years, retail payments has been a strategic priority for many players, with 83% of surveyed banks stating investment in the space had increased, even in an environment where many were seeking to reduce their overall operating cost base. Furthermore, the majority of surveyed banks were planning to increase investment further still. Before the pandemic, 85% of banks across all regions expected investment to increase through 2021, with 30% expecting increases of 6% or more. This was particularly true of larger banks, with those respondents with more than $200 billion in assets most likely to report the biggest expected increases.

Figure 1: Eighty-five percent of retail banks expect investment in payments to increase through 2021



Source: Omdia

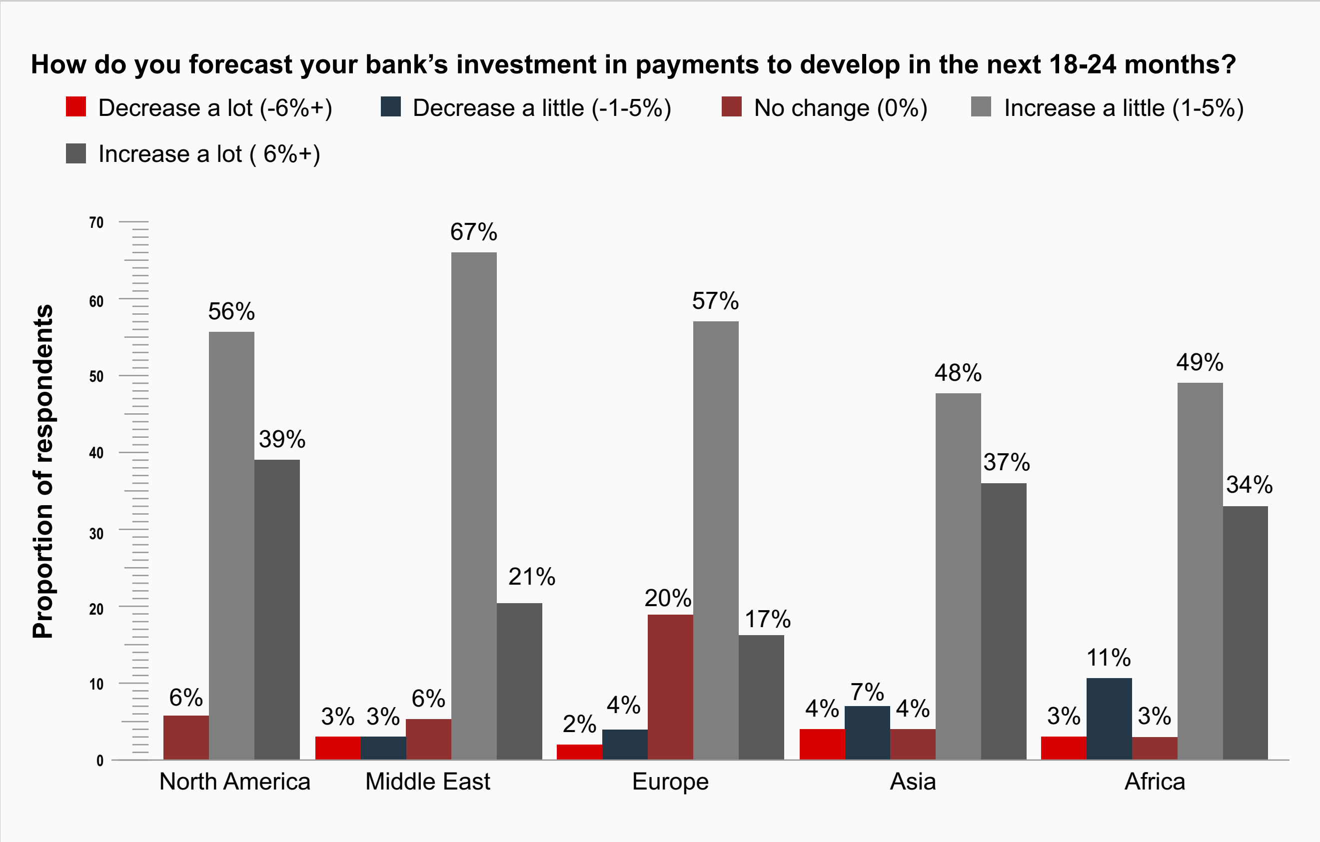
As a result of the pandemic, the proportion of those planning large increases is likely to fall, but as Figure 3 shows, the key investment drivers are security, compliance, and product enhancements. So while banks will be seeking efficiencies in running costs, overall payments investment is still likely to increase.

Investment varies by region; North American and Asian banks were most likely to report increases

Planned investment levels are particularly pronounced among North American banks, with 94% of respondents expecting future increases, compared with 74% of their European counterparts. Moreover, North American banks were the most likely to be making significant investment in payments, with 39% expecting increases of 6% of more, compared with 17% of European banks. This trend reflects the fact that North American banks have enjoyed strong growth in payments revenue in recent years, whereas growth for European banks has been sluggish, due in part to interchange caps on card transactions.

After the North American institutions, Asian banks were the second most likely to report high levels of investment: 37% expected spending increases of more than 6%. Credit cards remain important in many Asian countries, but there is also significant investment in developing digital payment mechanisms as banks seek to keep pace with the growing number of nonbank providers active in the market. In contrast, Middle Eastern banks were the most likely to predict more moderate increases in payments investment, with 67% forecasting increases of 1–5% in budgets.

Figure 2: Thirty-nine percent of North American banks and 37% of Asian banks expect large increases in payments spending



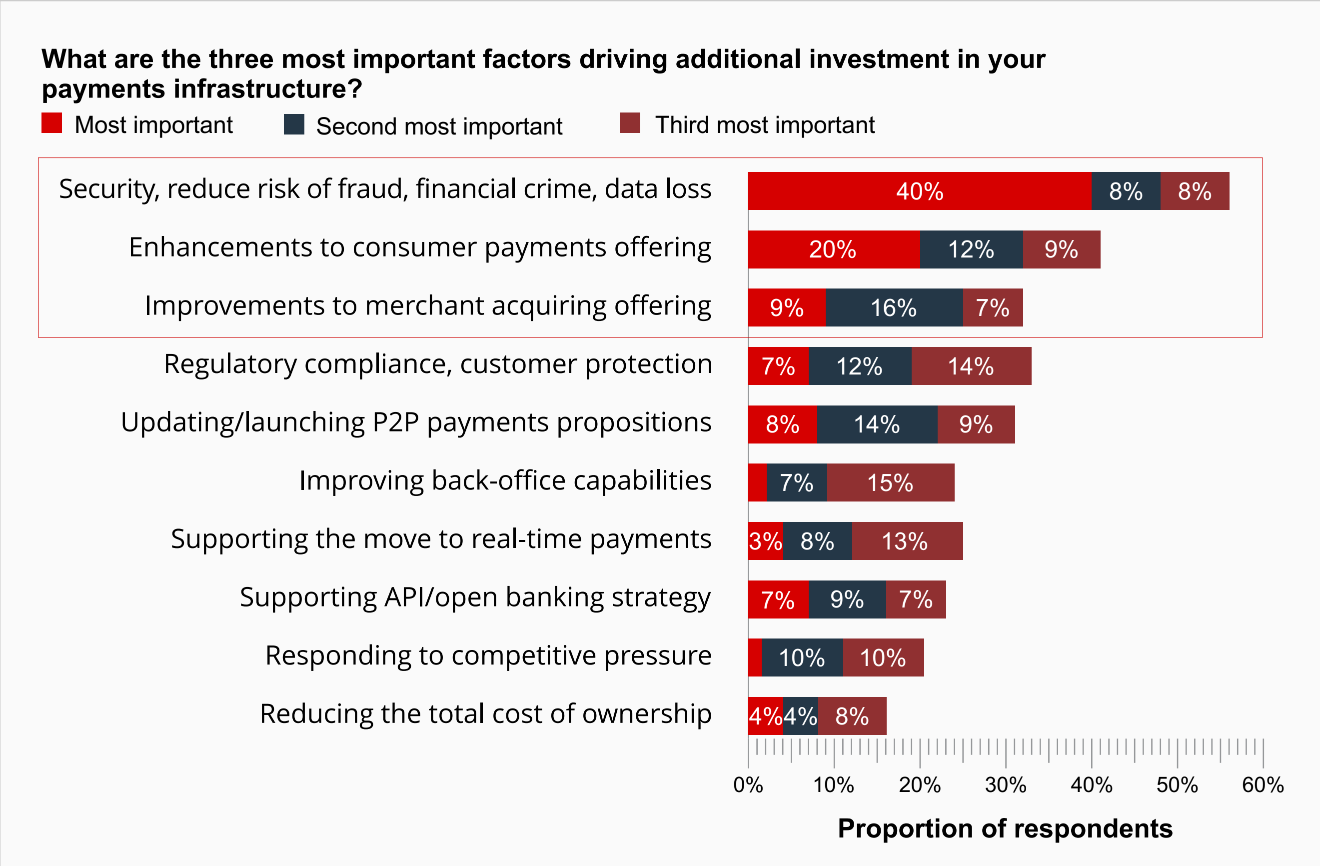
Source: Omdia

Investment drivers: Factors propelling investment in payments infrastructure

Driver one: Security and fraud is the most important driver for investment in payments infrastructure

When the drivers for increased spending on payments infrastructure are examined, one clearly emerges over all others: security. Globally, 40% of respondents ranked security as the number one driver for investment in payments. This trend was particularly pronounced in Asia, where the figure increased to 56%. The implementation of new security standards to combat the CNP challenge will be a notable contributory factor to security spending. Fraud volumes continue to rise globally, and in countries that publish detailed fraud breakdowns, data shows that CNP fraud accounts for the majority of fraud instances and is also rising. Given the shift toward e-commerce, which has been driven further still by the COVID-19 pandemic, CNP fraud rates are likely to increase even more. Examples of new standards include the latest EMV 3-D Secure (3DS) protocol and the Strong Customer Authentication (SCA) requirements of the Second Payment Services Directive (PSD2) in the EU, which means banks are having to factor additional authentication layers into CNP checkout processes over the course of 2020–21.

Figure 3: Security and enhancements to consumer payments propositions are the key drivers for additional investments in payments infrastructure



Source: Omdia

Banks are also exploring other means to improve digital security and to help merchants combat data breaches. AI, which is shown in Figure 4 to be a key area of strategic importance for banks, is likely to play a key role in this fight, not least thanks to its ability to improve detection, reduce false positives, and speed up investigations. It should also mean that banks are more adaptable at responding to new or developing fraud threats.

Driver two: After security, enhancing consumer payment propositions is key for banks

Enhancing consumer payments propositions is also considered a key driver for investment in payment infrastructure, with 20% of banks globally citing it as the number one driver of spending. The pace of innovation in consumer payments has increased significantly over the last three years. The rise of new form factors such as wearables together with increased competition from nonbank players in digital payments has changed the competitive landscape considerably. Many countries are also making considerable investment in real-time payments infrastructure. As a result, banks are having to keep pace with an ever-increasing array of new payment technologies and need to determine whether and how these solutions should be part of their payments proposition.

From a product perspective, there is also notable investment planned for the P2P payments space. There have been numerous developments in this area, driven by both banks and fintech providers, for both domestic and international digital transfers: examples include the bank-owned Zelle in the US and digital wallets such as Paytm in India and Coins.ph in the Philippines.

Driver three: Improving merchant acquiring propositions is also high on the agenda, particularly for African and Asian banks

After security and improving consumer payment propositions, banks are looking to make investments in their merchant acquiring propositions. This trend was particularly strong among African and Asian banks but was comparatively muted among North American banks. For example, 10.3% of African respondents placed merchant acquiring as their number one investment priority, and 27.6% ranked it as their second-placed priority. For North America, just 3.9% of banks ranked merchant acquiring first and 9.8% second, reflecting the prominent role of payment processors in the North American acquiring market.

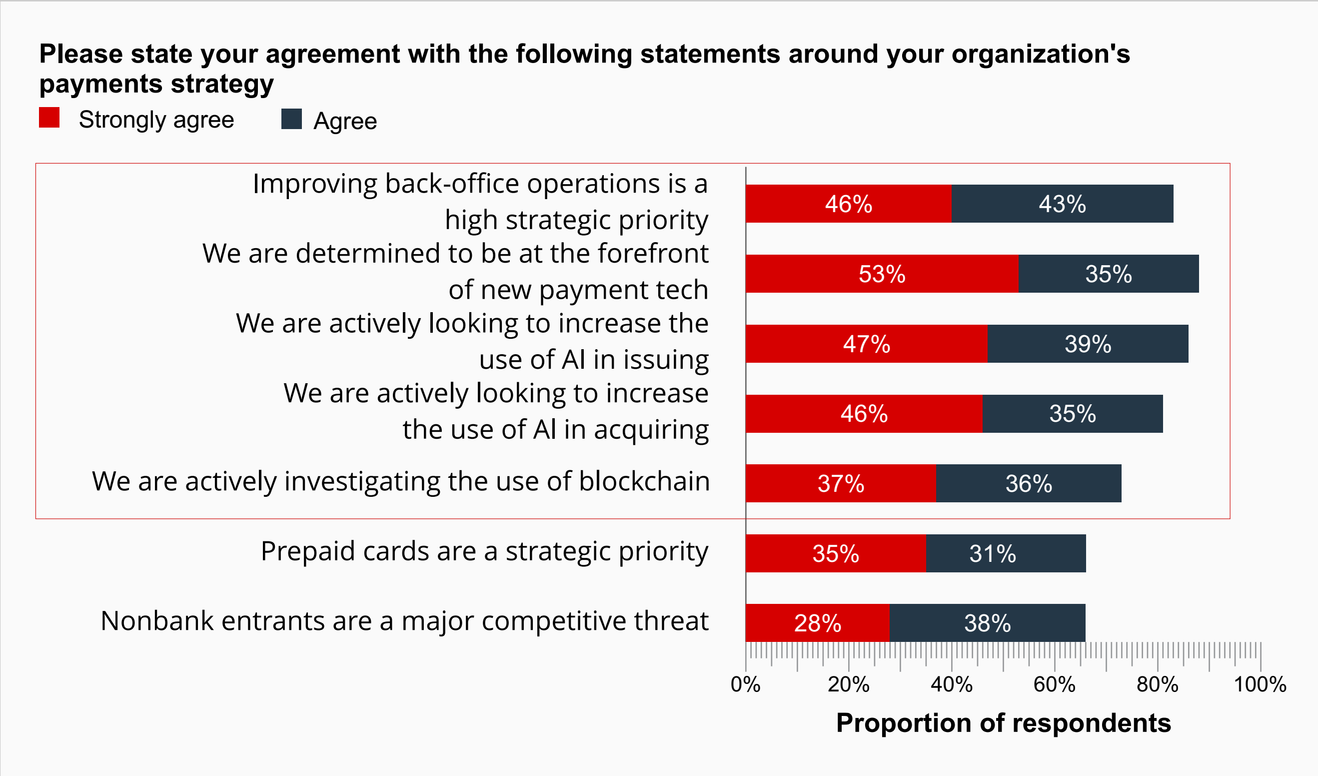
Strategic priorities: Banks are seeking to improve back-office operations and increase the use of AI

In addition to understanding banks' investment intentions for retail payments, it is also useful to gain an insight into banks' overarching strategic priorities for the space, because these will also be a key determiner of future direction and approach taken. When banks were asked about their strategic intentions, two clear trends emerged: the need to improve back-office operations and the intention to make greater use of technologies such as AI in their business.

Eighty-nine percent of surveyed banks agreed that improving back-office operations is a high strategic priority, a trend that is reflected across all geographical regions. Banks are becoming increasingly alive to the need for digitalization of the wider processes that surround payments, for while significant strides have been made in digitizing the customer-facing aspects of their businesses over the last decade, modernization of back-office processes, such as transaction processing, servicing, disputes, reconciliation, and chargebacks has lagged somewhat behind.

To improve business processes, banks are actively investigating using the latest technology. AI technology is of particular interest, with 86% of banks stating they are actively looking to increase the use of AI in their issuing businesses and 81% looking at it for their acquiring businesses. AI can have a multitude of applications from fraud detection to improved analysis of customer data and offers increased scope for automation and cost reduction.

Figure 4: Eighty-nine percent of retail banks agree that improving back-office operations is a high strategic priority



Source: Omdia

Banks' interest in blockchain in payments is comparatively more muted than in increasing use of AI

While interest in AI is high among banks worldwide, the picture for blockchain is more varied. On a general level, the fervor surrounding blockchain in payments has dissipated to some degree over the last year, because while there have been several exploratory projects, few compelling, affordable, and live use cases of the technology by banks in the payments space have emerged. Globally, 73% of banks stated they were actively investigating the use of the technology in retail payments. Banks in Europe were most likely to consider it a strategic priority, with 89% of banks in the region stating they were actively investigating use cases, whereas this was the case for just 61% of respondents in Asia. Certainly, there are some high-profile use cases for blockchain being tested in Europe, notably the e-krona project in Sweden. However, this does not mean there has been no activity in Asia. Indeed, there are some prominent projects such as messaging app Kakao's launch of its crypto wallet, Klip, in June 2020 in South Korea, but the more important of these projects are taking place outside the Asian markets surveyed.

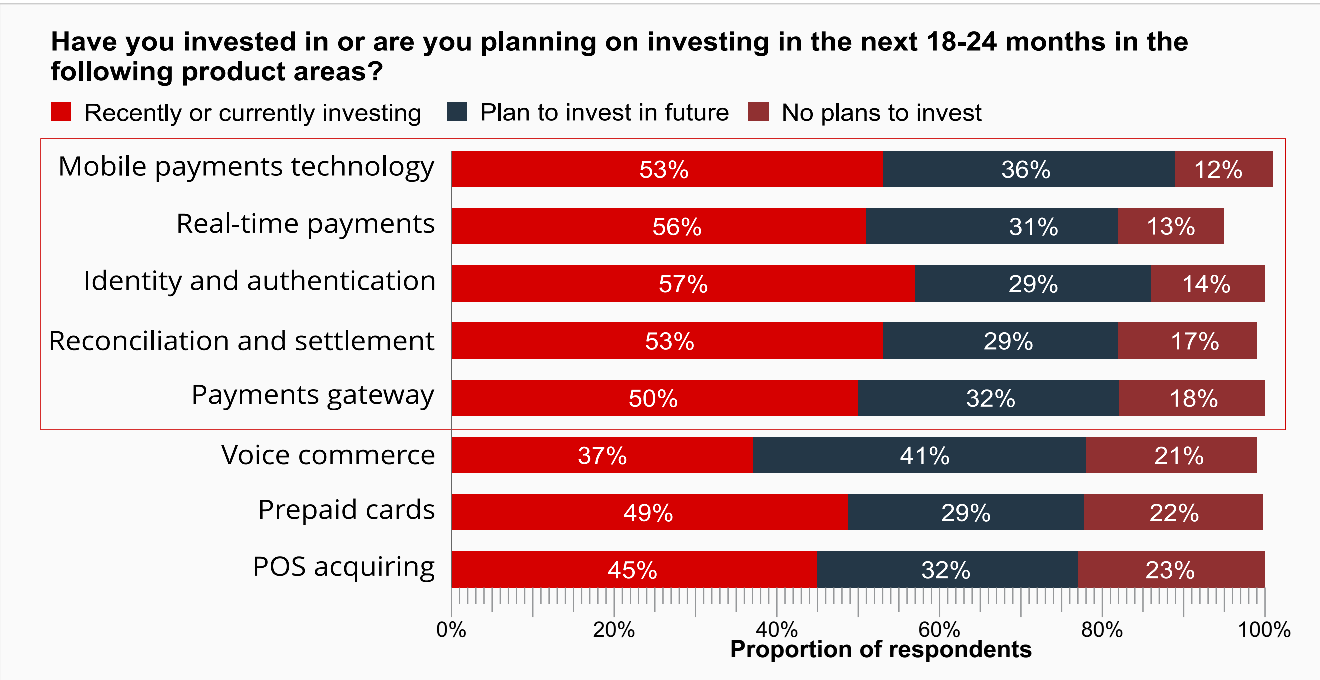
Product Development Sees Banks Focus on Mobile and Real-time Payments

Improving security, consumer payments, and merchant acquiring propositions are the three key drivers for investment in banks payments infrastructure, but how does this translate to product investment in issuance, acquiring, and the supporting back office?

When Omdia asked banks about current and future investment plans for different products, three key areas emerged. These include mobile and real-time payments, affecting both issuing and acquiring businesses and tying into the need to provide convenient, instant payments to consumers. Identity and authentication is also key, which fits in with the previously identified trend of security being the number one driver of investment in payments infrastructure.

Beyond these top three areas, in the back-office space, reconciliation and settlement was also shown to be attracting investment, as were payment gateways in the merchant acquiring space and prepaid cards in issuance.

Figure 5: Mobile and real-time payments are the key product investment areas for banks



Mobile payments: African and Asian banks are most likely to be investing funds

Plans for investment in mobile payments were consistent among banks globally and also tie in with a strong level of merchant demand as depicted in Figure 8. African (94%) and Asian (98%) banks were most likely to declare plans for current and future investments; both regions are typically considered to have well-established mobile wallet infrastructure, particularly for P2P payments, though person-to merchant payments remain a small proportion of overall transactions. The picture also varies considerably by individual markets. In Africa, with the exception of Nigeria, the mobile payments space in most markets has traditionally been dominated by mobile network operators rather than by banks, who are now seeking to increase their activity in this space and provide mobile access, including payments, to their banking services.

While in Asia countries such as Indonesia and the Philippines remain very much cash-based economies, initiatives from central banks to increase electronic payments have seen digital wallets, both bank and nonbank, proliferate. In Indonesia, for example, there are 50 (as of May 2020) e-wallet providers registered with the central bank.

The COVID-19 pandemic is also likely to provide a further push to electronic transactions in these regions as individuals are pushed to transact online more, and even where payments are made in person, contactless transactions are likely to be preferable.

Besides digital wallets, there is, of course, also scope to use mobile technology to serve as a modern interface to existing systems. An example is India's Unified Payment Interface (UPI), which enables the instant transfer of funds between two bank accounts on a mobile platform. UPI has been hugely successful: since its introduction in 2016, it has grown to see 1.3 billion transactions per month (as of June 2020) take place on the system and counts 155 live member banks.

Real-time payments: 87% of banks have invested or are planning to invest to differentiate consumer payment propositions

As shown in Figure 3, enhancing consumer payment and merchant acquiring propositions are key drivers for investment. In line with this, banks globally are paying attention to real-time payments to meet strong demand from consumers and merchants for convenient payment experiences backed by heightened regulatory support.

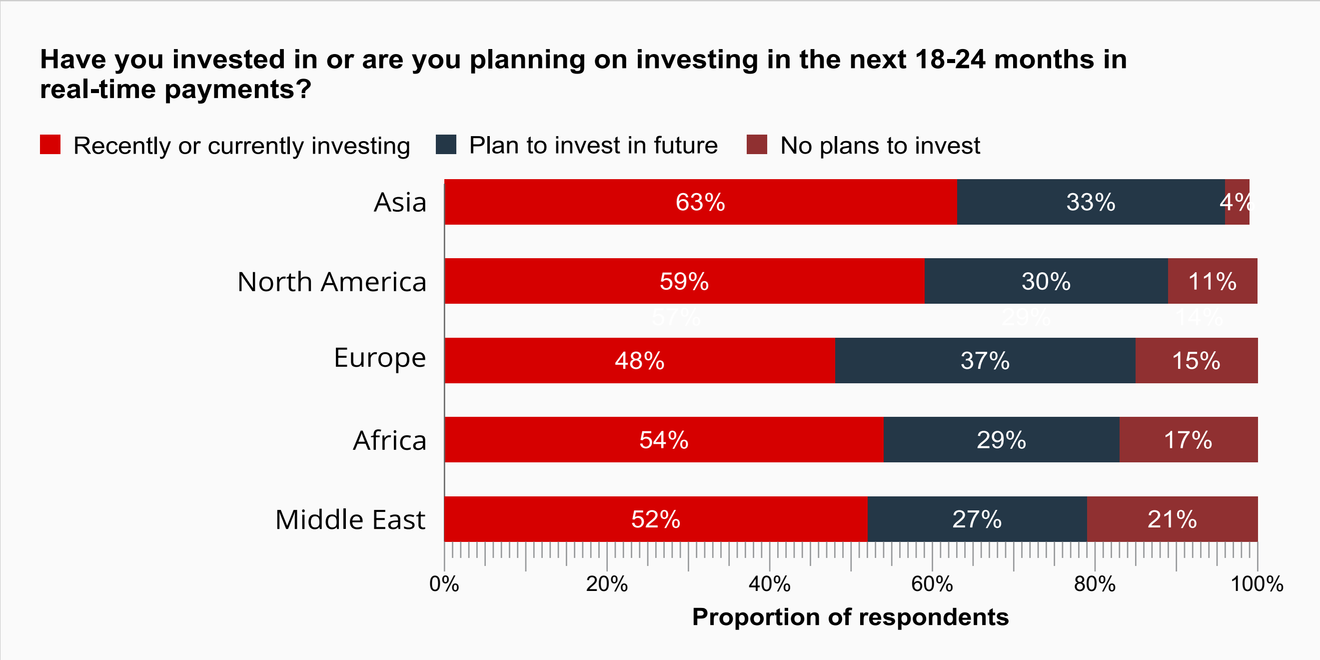
Real-time payments, for their part, are attracting considerable investment in both Asia Pacific and North America, where 96% of banks stated they were investing or planning to invest in the space. In contrast, in the Middle East this was the case for just 79% of players, though there is more limited infrastructure in situ, with only Saudi Arabia of the surveyed markets having a real-time payments system in place.

Certainly, there is significant activity in real-time payments in both Asia and North America in terms of the creation of local real-time infrastructure and the development of overlay services. Both regions have established real-time payments systems-such as RTP from The Clearing House in the US, the market-leading UPI in India, and InstaPay in the Philippines-but there are also new developments. For example, Malaysia launched real-time retail payments (RPP) in early 2019, with consumers able to access overlay services such as P2P transfers and request-to-pay through the DuitNow brand, while in Canada, the Real-Time Rail (RTR) system is currently under development, with phased releases currently scheduled from later in 2020. Besides overlay services for retail payments, there is also opportunity in the corporate space, with instant corporate payments being an increasingly requested use case.

Interestingly, merchant demand for real-time payments varies, with 14% of European banks citing real-time products as the service most in demand from merchants compared with just 4% of North American banks. This difference likely reflects the differing maturity levels in real-time systems in those regions: some European markets, such as the UK, have long-established real-time payment systems, while in North America real-time payments are much newer, with the US's system first going live in 2017. As a result, merchant demand for real-time services in Europe is more established.

However, in the longer term, the demand from North American merchants for real-time services is likely to increase. In North America, 19% and 17% of banks rated real-time services as the second or third most-demanded service respectively, and North American banks were most likely to declare current or ongoing investment in the real-time space.

Figure 6: Asian and North American banks were most likely to declare current investment in real-time payments



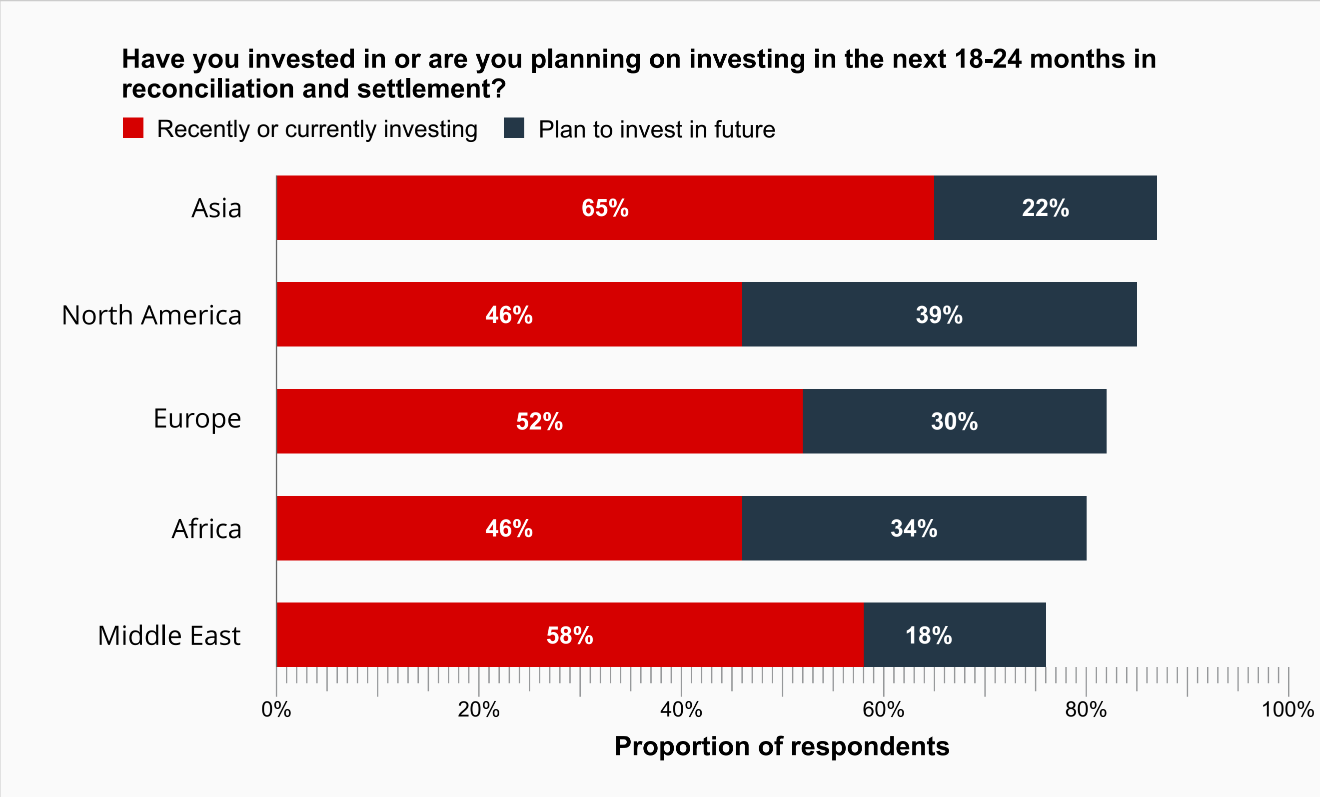
Source: Omdia

Investment in reconciliation and settlement is also key for the move to real-time payments

As Figure 3 shows, banks are placing a high strategic value on improving the back office. Investing in reconciliation and settlement ties in with this objective and is also a logical link to development in other areas of payments such as real-time.

The rise in real-time payments also puts pressure on banks to invest in back-office processes such as reconciliation and settlement. Before the advent of real-time payments, retail payments would typically be batch-processed in hours or even days. Now, with the move to payments on real-time rails, banks need to have the necessary back-office systems to underpin real-time services. In short, reconciliation and associated processes need to happen in seconds rather than hours. It is, therefore, no surprise to see that 82% of banks stated that reconciliation and settlement are currently or will be an area for investment. Unsurprisingly, this trend was strongest in Asia and North America, which were the two regions where investment in real-time payments was highest. This future investment will primarily be AI based as banks also look to improve productivity.

Figure 7: Thirty-nine percent of North American banks are planning to invest in reconciliation in the future



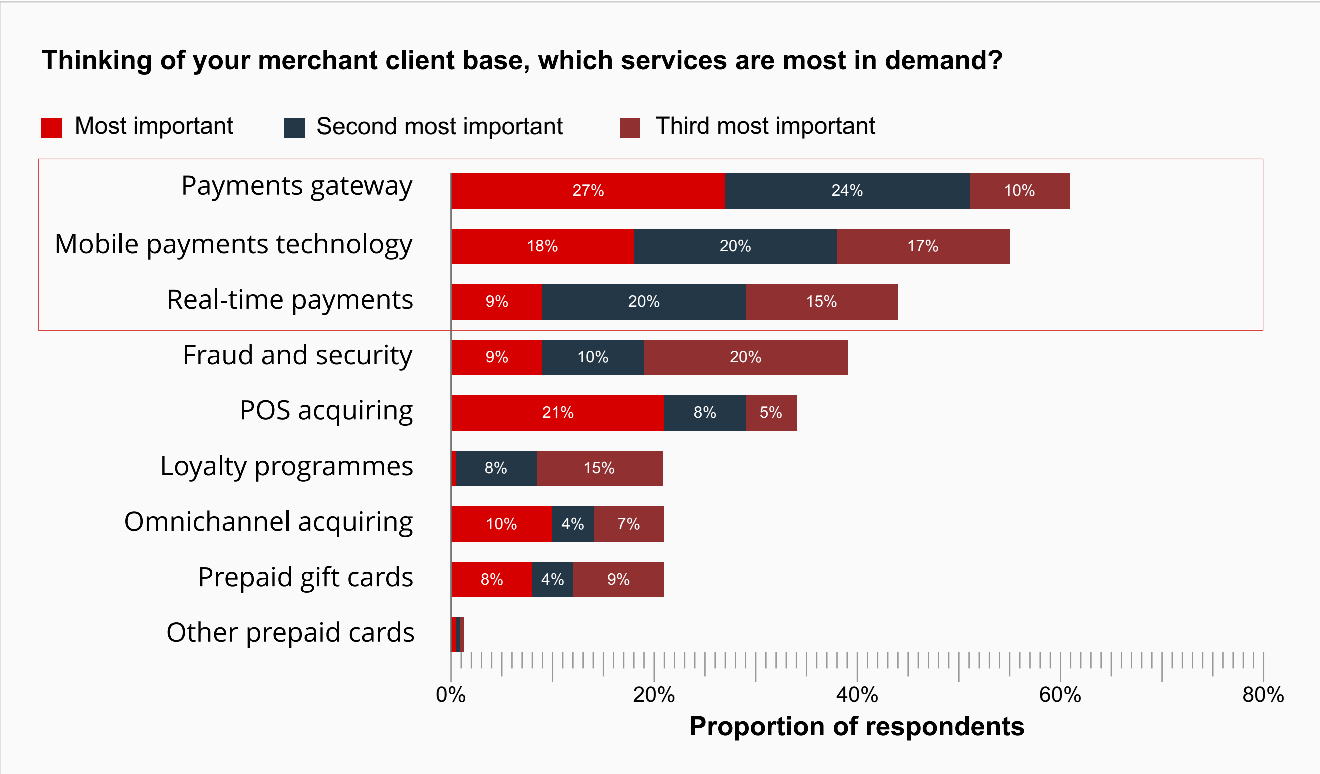
Source: Omdia

Payment gateways: A key area for investment, and the focus will only increase with COVID-19

While mobile and real-time payments top the priorities for product investment, a not insignificant 82% of respondents said they had current or future investment plans for payment gateways.

This ties in with a strong level of demand for payment gateways from merchants. Indeed, globally, banks cited payment gateways as the product most in demand from merchants, and this trend will only have been amplified by the COVID-19 pandemic, which is driving e-commerce volumes further. Ultimately, the acquiring infrastructure for CNP transactions is set to outpace point-of-sale (POS) acquiring infrastructure as more and more merchants seek to establish an online presence.

Figure 8: Payment gateway services are the merchant acquiring product most in demand from merchants

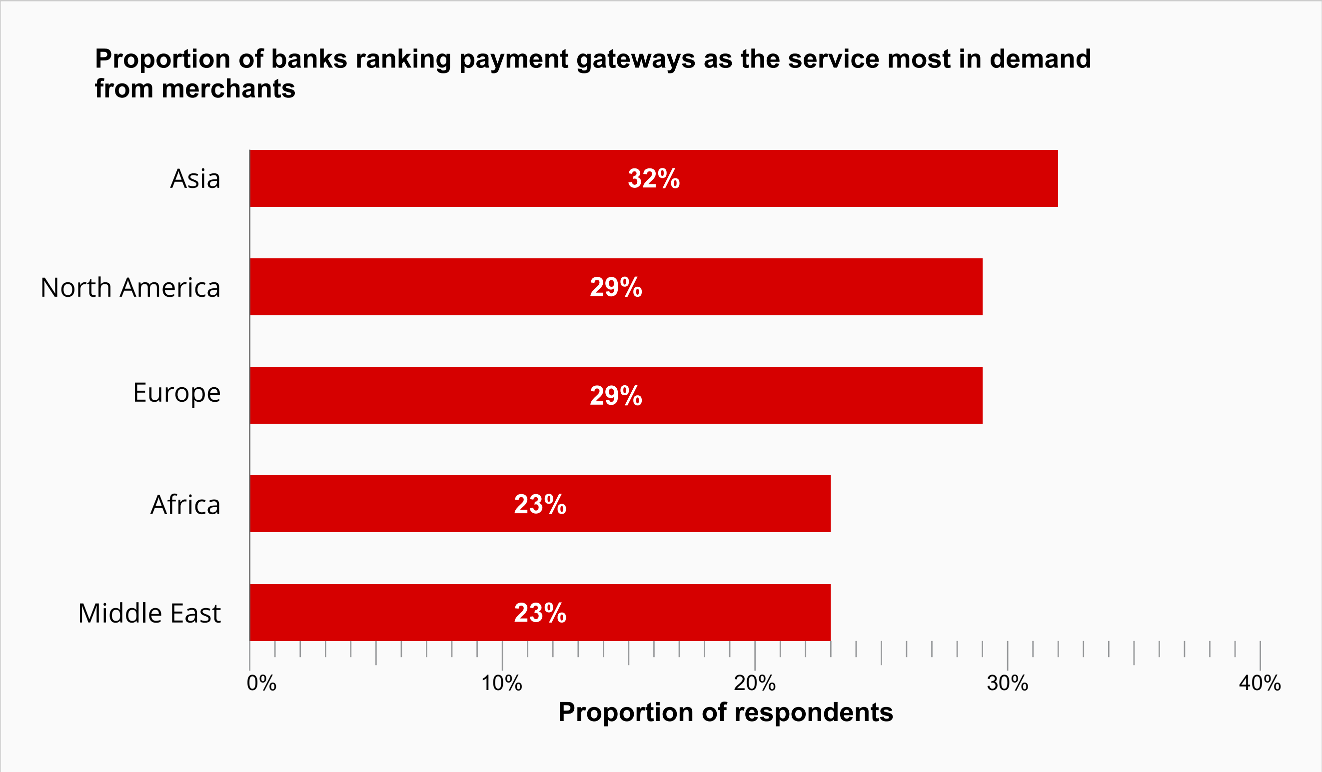


Source: Omdia

The high level of merchant demand for payment gateways was consistent across all regions, though there was some variation in its ranking. Asian banks were most likely to rank merchant demand for payment gateways highest, with 32% ranking it first. European banks were least likely to: "only" 23% placed it first.

Figure 5 further corroborates the importance of payment gateways, with 82% of banks stating current or future investment in the product.

Figure 9: Thirty-two percent of Asian banks state that payment gateways are the service most in demand from merchants



Source: Omdia

Prepaid Offerings Continue to Attract Investment

Prepaid investment: Over three-quarters of banks are investing in prepaid offerings

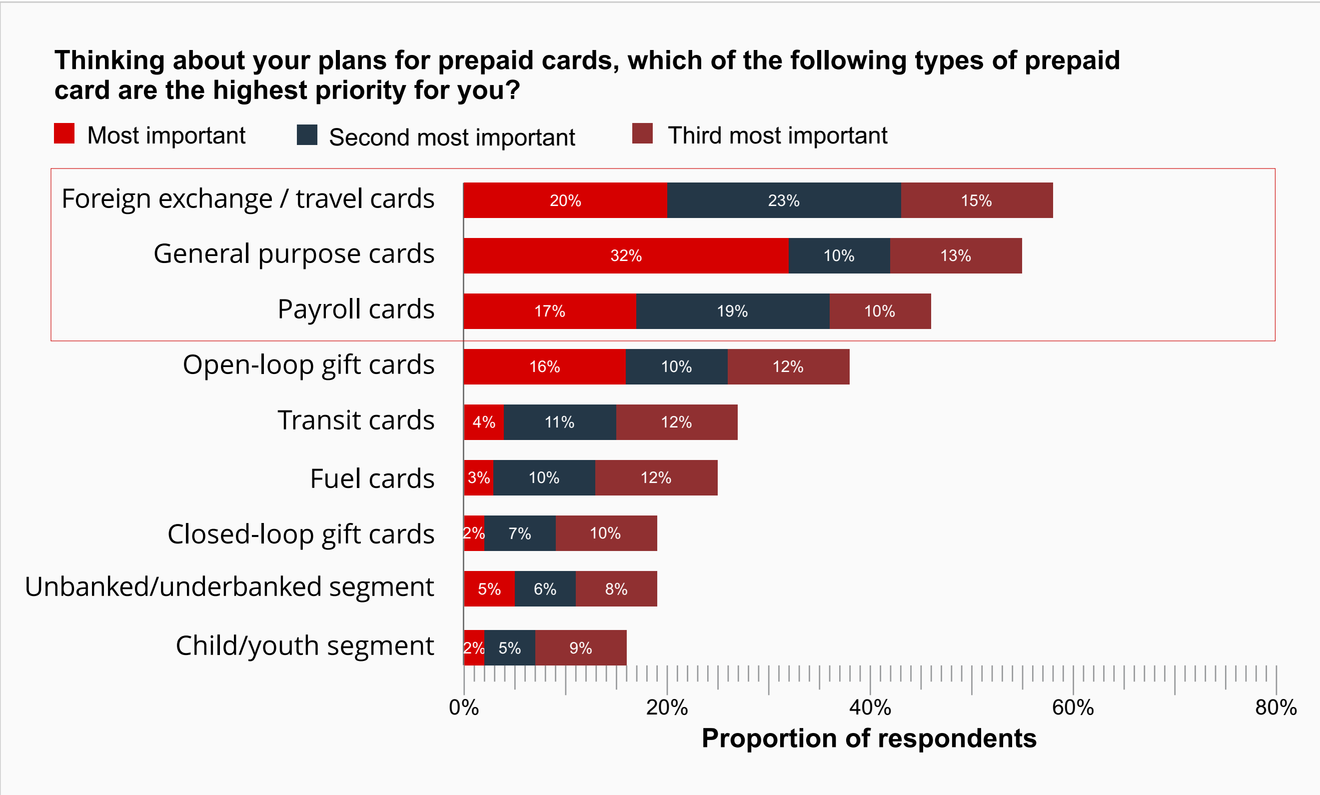
Though not as prominent an investment area as , for instance, real-time payments, prepaid cards continue to attract spending from some quarters. Seventy-eight percent of banks stated that they are currently investing or were planning to invest in the prepaid space, with interest being particularly strong among African banks, where the percentage rose to 86%. Several banks in the region offer prepaid cards, while many mobile network operators offer mobile prepaid offerings, Airtel Money in Kenya and MTN Money in South Africa being two such examples. Government initiatives have also played a role in some countries: Nigeria's National e-ID Card, which incorporates prepaid payment functionality, is a case in point.

Prepaid priorities: General purpose and foreign exchange cards are attracting the most interest

Of those banks investing in prepaid, the greatest areas of interest are in the foreign exchange or travel card, general purpose, and payroll card segments. For the general purpose space, interest was high across all regions but particularly so among North American and African banks. Key trends in the space include instant virtual issuance and contactless, co-branded cards. In Africa, notable examples of general purpose cards include the Huduma card in Kenya, which was introduced in 2017 to improve financial inclusion and is issued by a number of Kenyan banks, while in Nigeria most local banks have an array of prepaid products.

The foreign exchange segment was also consistently popular across all regions. In North America, for instance, travel cards are considered mainstream and are offered by multiple providers, one example being CIBC's Air Canada AC Conversion product. One of the main trends in the travel space is in the introduction of multicurrency, multipurse cards, an example being Emirates' NBD GlobalCash Card, which holds up to 15 currencies and can be fully managed online. Interest in the foreign exchange segment will have waned considerably since the survey because of the significant and widespread restrictions on international travel in light of COVID-19. However, in the medium to long term, demand for foreign exchange products will return as the situation eases, and it might even increase thanks to pent-up demand for travel.

Figure10: For the 78% of banks investing in prepaid, the focus is on general purpose and foreign exchange cards



Source: Omdia

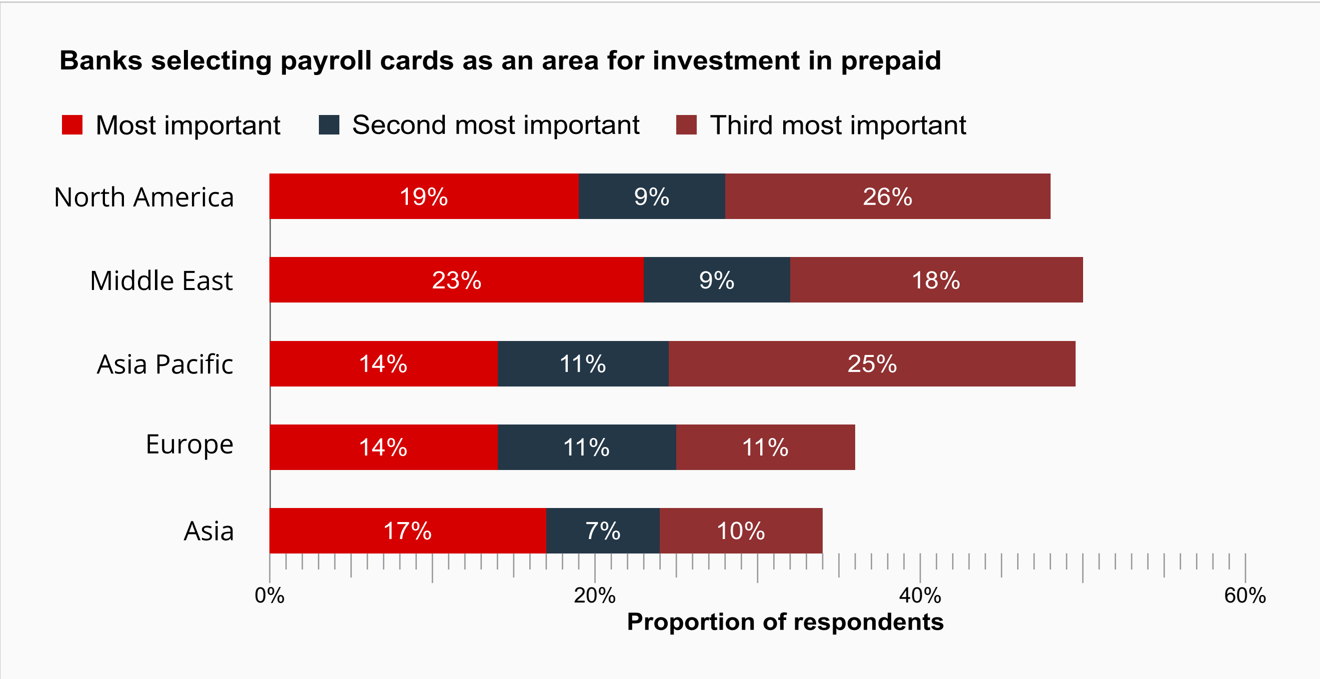
Payroll cards: An increasingly important segment, particularly for the unbanked

Payroll cards are another growing segment, particularly in North America, the Middle East, and Asia, where banks were most likely to cite investment in the space. Payroll cards have steadily grown in popularity in the US, offering employers an electronic way to pay unbanked and underbanked employees. The most recent survey of the unbanked by the Federal Deposit Insurance Corporation (FDIC) in the US puts the number of unbanked households at 8.4 million, 6.5% of the population.

Legislation has also been a driver for the uptick in payroll card demand. Some Middle Eastern countries, for instance, have introduced requirements stipulating that companies over a certain size or households employing domestic workers must pay wages electronically. For example, in December 2017 the Saudi Arabian government introduced the Wage Protection Law, which mandated salary payments for domestic workers through prepaid cards. Accordingly, banks have increased their provision in this space. For instance, SABB offers its Household Salary Card, which enables cash withdrawals and POS purchases.

Besides offering the obvious ability to pay staff electronically, some banks are also investigating the possibility offered by payroll cards to disburse other benefits such as health insurance or meal allowances. One such example is the ICICI Bank Meal Card in India, which provides corporates with a card platform for staff meal allowances.

Figure 11: Middle Eastern banks were most likely to rank payroll cards as their number one investment area in prepaid



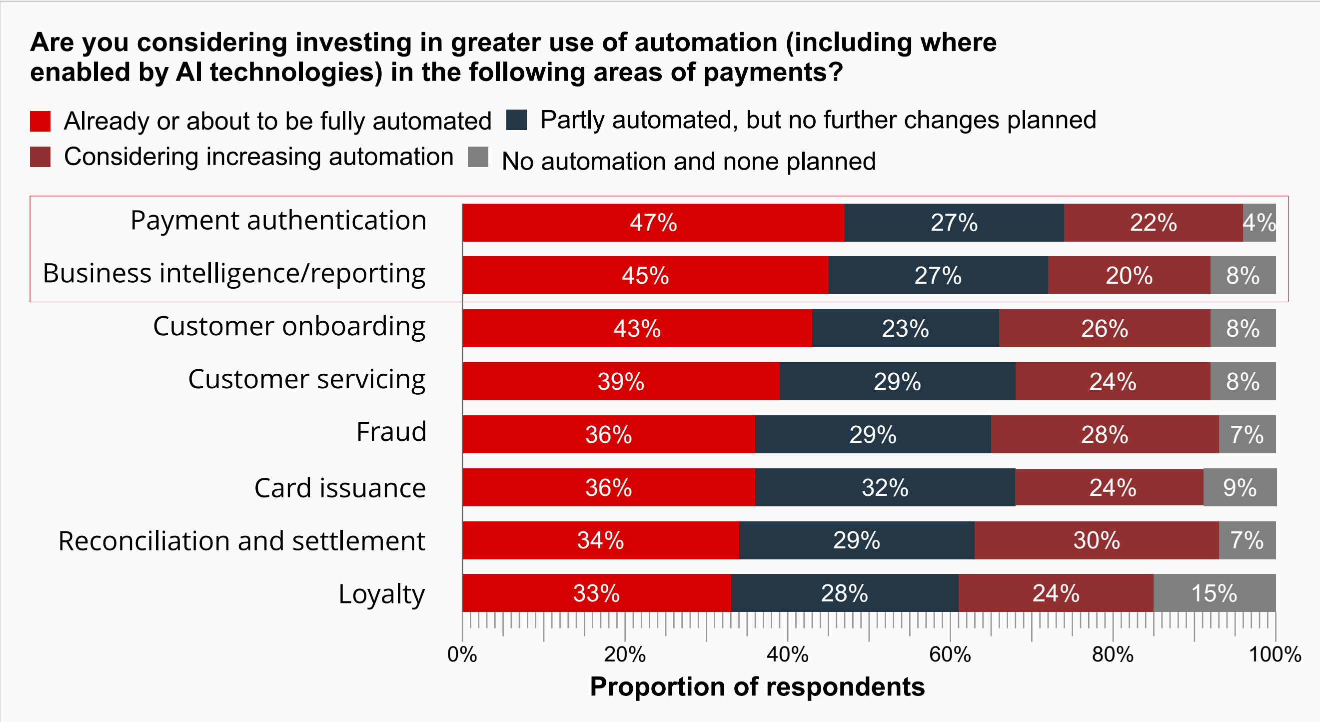
Source: Omdia

The Shift to Automation Continues, and Saas Adoption is Increasing

Digital enablement: Automated processes are increasingly important across payments

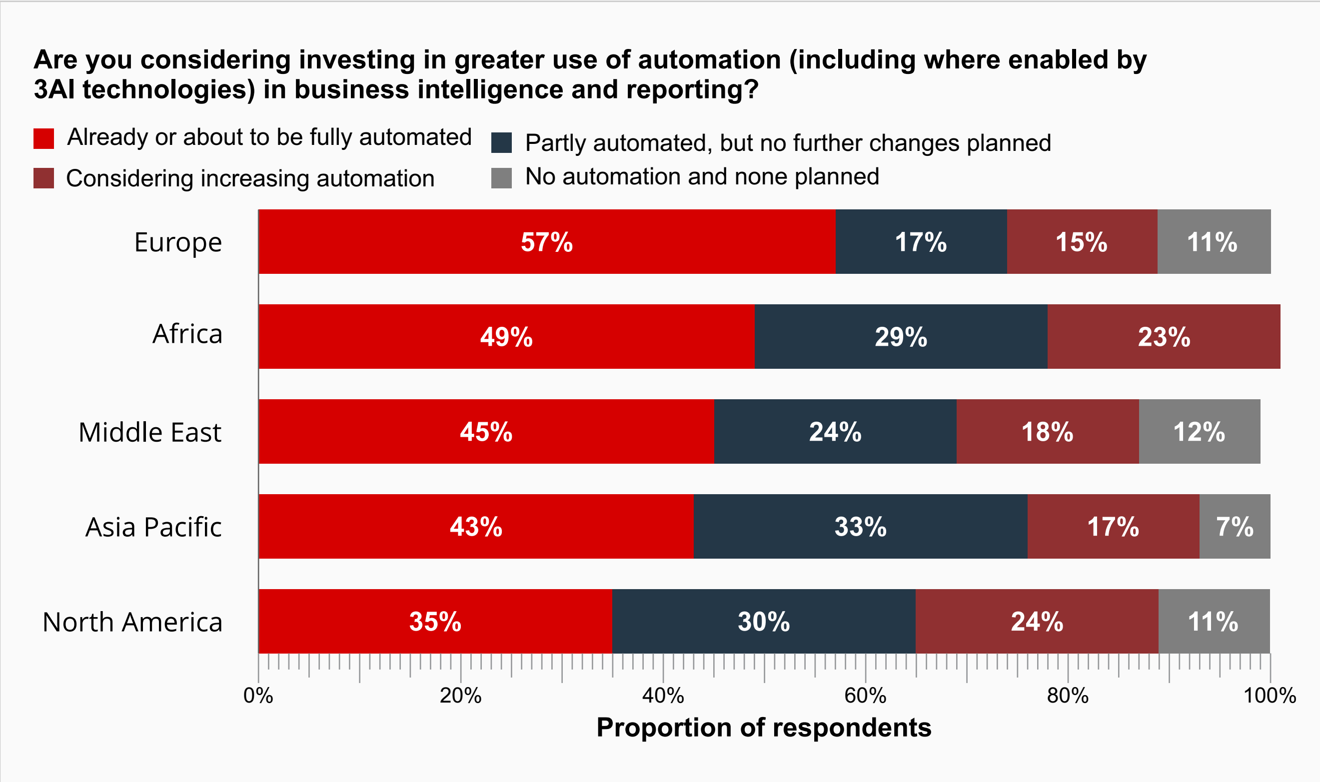
Digitally enabled processes are widely implemented in certain areas of payments, notably authentication, business intelligence, and reporting, with 74% and 72% of surveyed banks respectively having fully or partly automated processes in place for these areas. Notably, Asian banks are most likely to have or be planning to have automated processes in place across the whole business, with just 5% saying it was not being considered at all compared with a global average of 8%.

Figure 12: The shift to digitally enabled processes is set to increase in more areas of payments, notably authentication, business intelligence, and reporting



The mixed regional picture is demonstrated by the varied use of automated processes for business intelligence (BI) and reporting across the regions. European banks were most likely to have fully automated processes already in place, with 57% of respondents reporting existing automation, compared with just 35% of North American banks. North American and African banks were most likely to be considering further digital enablement in BI, but notably, more banks in both regions stated partial automation was in place and no further changes were planned.

Figure 13: 57% of European banks have fully automated processes for BI, compared with 25% of North American banks



Source: Omdia

The shift to digital processes is only likely to increase after the pandemic as banks seek to find efficiencies in operating costs. Identifying the areas where banks are considering increasing digital enablement, we see two spaces appear to be gaining more traction. These are fraud and reconciliation and settlement, both areas that featured high on the list of banks' future strategic and investment priorities.

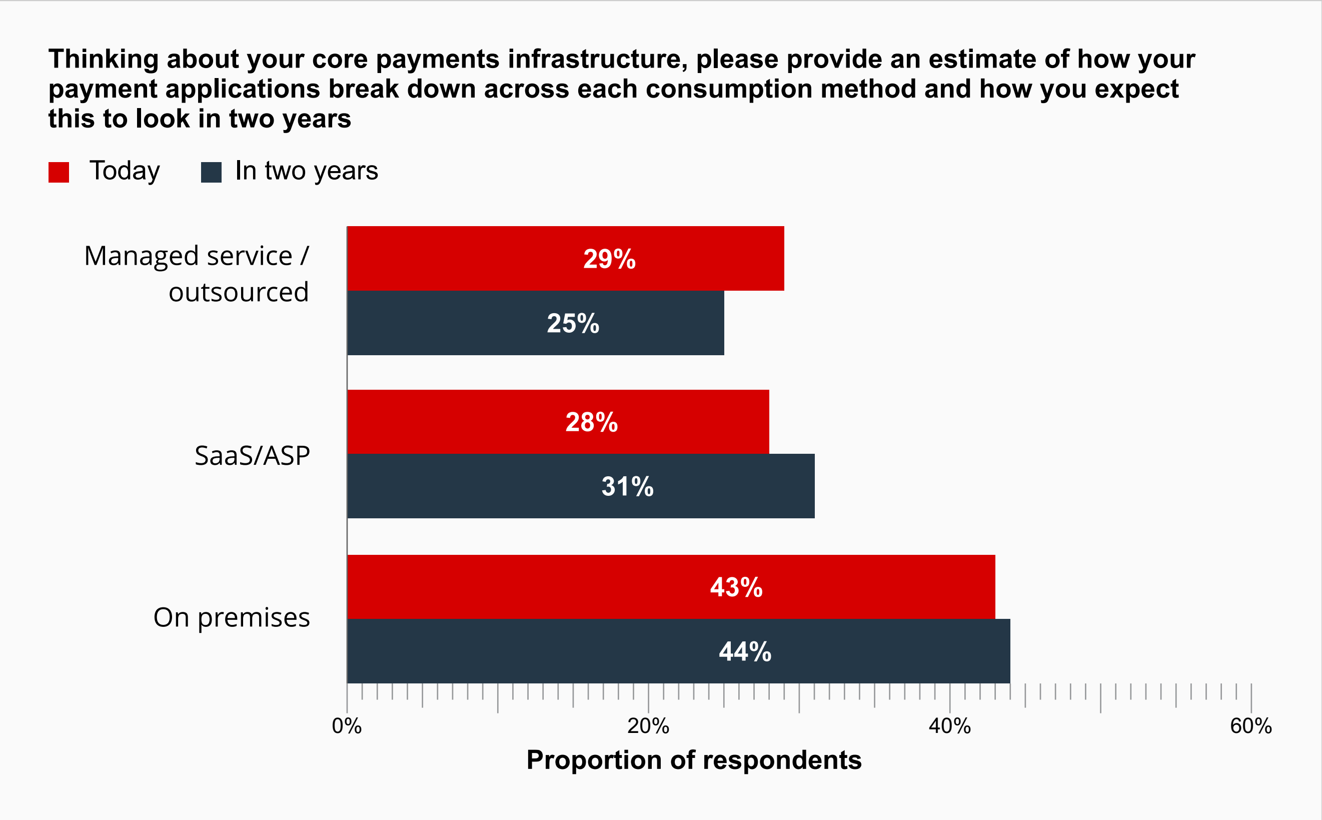
Globally, 28% of respondents stated they were considering increasing the use of automated processes for fraud, with the percentage rising to 43% in Africa, which has relatively low levels of automation of fraud protection at present, and to 35% in North America. Fraud instances are increasing globally, particularly for CNP fraud; this also holds true for markets such as South Africa, where data from the South African Banking Risk Information Centre (SABRIC) shows that CNP fraud accounted for 62% of gross fraud losses on locally issued credit cards in 2019 and that instances had increased by 3.4% on 2018. Within this, automation will be particularly important for improving payment authentication, not only for checking for fraudulent use but also for helping to reduce false positives and improving the payment acceptance rates for merchants.

For reconciliation and settlement, the intention to take a digitally enabled approach was particularly strong among North American respondents at 41% and those from the Middle East at 39%, compared with the global average of 29%.

Cloud strategy: Most retail banks have a cloud-first approach for new software implementations

Turning to delivery models of software needs, 44% of banks' payment applications are on-premises, a trend that looks set to remain stable through 2021. However, the adoption of SaaS applications looks set to increase slightly from 28% to 31%, at the expense of the consumption of managed services, which are set to decline from 29% to 25%.

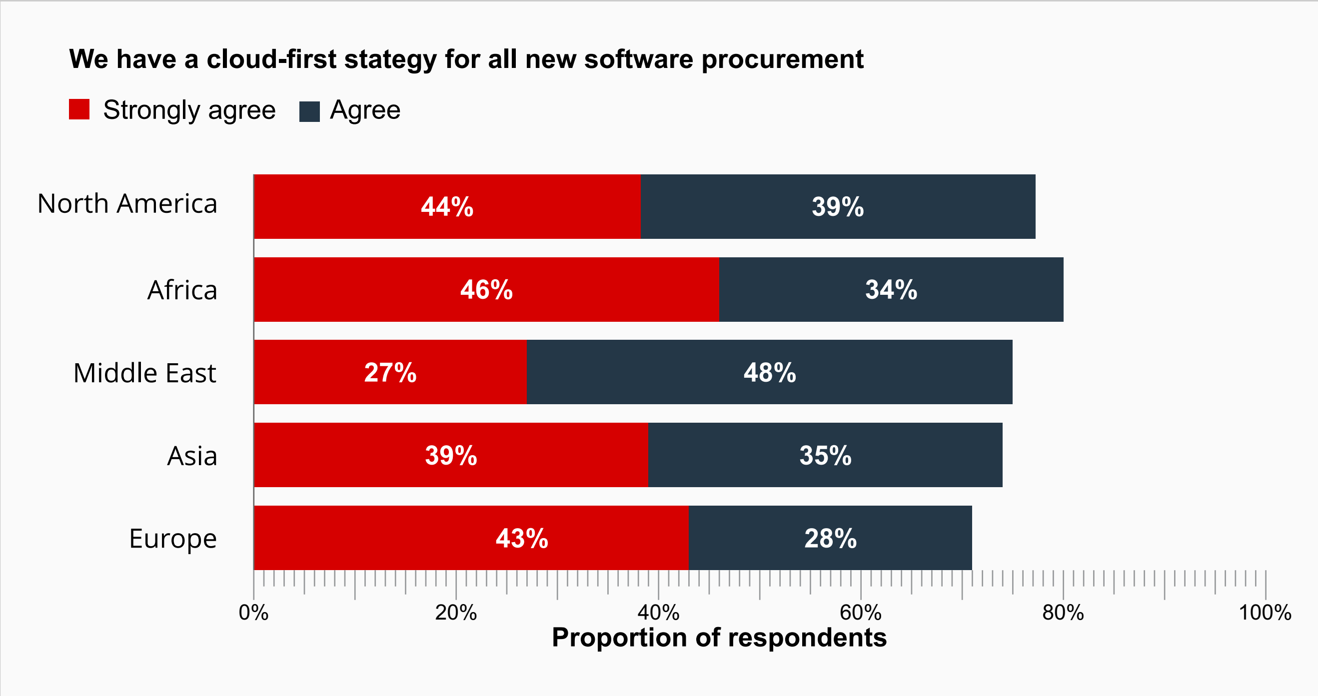
Figure 14: Consumption of SaaS payment applications is likely to increase at the cost of managed or outsourced services



Source: Omdia

Notably, the majority of banks have a cloud-first strategy for all new software procurement. This is particularly true of North American banks, where 83% take this approach, though this proportion drops in Europe to 71% of providers. Nonetheless, the preference for cloud is clear, and it will be a key aspect that banks, particularly after the COVID-19 pandemic, take into consideration when determining their next steps in investing in new technology.

Figure 15: A cloud-first strategy predominates among retail banks



Source: Omdia

Appendix

Methodology

For this white paper, Omdia and FSS partnered to run a 20-question telephone survey of key executives responsible for retail payments in banks.

The aim of the survey was to understand the current attitudes, business objectives, and challenges facing banks in retail payments, with a view to providing a picture of the role that investments in payments technology can play both now and in the future.

The survey focused on the following topics:

- Historic and future investment plans for retail payments
- Core business objectives and priorities
- Payment systems infrastructure and management
- Consumer payment trends
- Merchant acquiring relations
- Technology: SaaS and automation

Respondent breakdown

Total respondents	214

Respondents by region

Africa35	35
Asia	46
Europe	46
Middle East	33
North America	54

Bank respondents by size (assets)

$200bn+	54
$101–200bn	38
$51–100bn	53
$10–50bn	69

Example respondent job titles

Director of retail payments / cards; head of issuing; head of merchant acquiring

Fieldwork took place in June and July 2019, with 214 respondents interviewed across 19 markets, namely Africa (Egypt, Kenya, Nigeria, South Africa), Asia (India, Indonesia, Malaysia, the Philippines), Europe (Belgium, Denmark, Germany, the Netherlands, Sweden, the UK), the Middle East (Oman, Qatar, Saudi Arabia), North America (Canada, the US). The respondent breakdown is detailed in the table.

About FSS

FSS (Financial Software and Systems) is a leader in payments technology and transaction processing. FSS offers an integrated portfolio of software products, hosted payment services and software solutions built over 28+ years of experience. FSS, end-to-end payments products suite, powers retail delivery channels including ATM, POS, Internet and Mobile as well as critical back-end functions including cards management, reconciliation, settlement, merchant management and device monitoring. Headquartered in India, FSS services leading global banks, financial institutions, processors, central regulators and governments across North America, UK/Europe, Middle East, Africa and APAC.

For more information visit **www.fsstech.com**

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