Fiserv Annual Payments Research

NOVEMBER 2020

fiserv.

PAYMENTS TRANSFORMATION: IMMEDIATE, INTELLIGENT AND INCLUSIVE

Finextra

01
FOREWORD

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Fiserv

Our hearts go out to all those who have endured difficult losses as a result of the COVID-19 pandemic. We thank the essential workers who have kept us safe and well. We also thank those who have ensured our financial ecosystems continue to function, reminding us how important those systems are to our way of life.

The pandemic has changed how we think about payments and the way people move and manage money. Not surprisingly, you see its influence in our payment trends this year.

Our 2020 survey shows a change in focus, from the implementation of large infrastructure changes, such as instant payment systems, ISO 20022 adoption and open banking, to an emphasis on how those changes can drive value for payment users.

The payment experience has become the focal point. Understanding how financial institutions can improve the services they deliver is central to the current direction of the payment industry. While COVID-19 has added impetus, the customer-centric, payment-user-first trend has been gaining prominence.

Financial institutions need to identify and understand the rapidly changing needs of payment users as they adopt and incorporate instant payments, take advantage of extended data in business interactions and employ event-driven payments. Interpreting those needs and trends can bring value and ultimately revenue for their customers.

That is especially important as financial institutions face unyielding competition from companies that put themselves at the center of user interactions and endpoints, ensuring their access to the information that flows between users. They know that data likely has more value than the payment. Companies such as Apple, Amazon, Google and PayPal are consolidating their role as payment services providers – and getting closer to replicating the payments success of Alibaba.

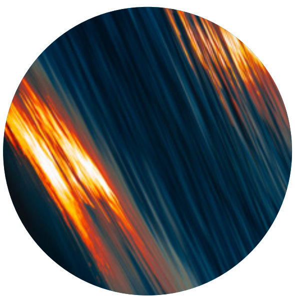
As the payment element of an interaction becomes a commodity, financial institutions not only need to focus on how they generate value for their customers, but on how they can drive down costs and improve efficiency without adding operational risks. Previous trends continue, such as the use of commercial centralized services, including cloud deployments. Managed services and Payments as a Service are new trends on the horizon.

Last year’s survey identified the need for proactive management of cash and liquidity in real time. The trend is gaining prominence due to the immediacy demanded by payment users, including the finality of instant payments and the ability to perform those payments at the time of the interaction instead of only during a bank’s working hours. In a real-time world, “end of day” has little meaning. Financial institutions and their users need tools and processes for efficient management of cash and liquidity in real time, all the time.

Finally, this year’s survey would not be complete without highlighting the importance of business continuity. We are proud of our team. Like many of you, we moved most of our associates to work-from-home or off-premise working status over a weekend, while ensuring business as usual for our clients. We are honored by the commitment of our key workers who stepped up to ensure our services, renowned for operational excellence, continued uninterrupted to meet our clients’ needs

None of that would have been possible without comprehensive business continuity plans. The survey shows business continuity was at the forefront of financial institutions’ planning but has been prioritized as COVID-19 continues its impact.

I hope you find the results of this survey helpful. Please contact us to learn how you can maximize your opportunities to successfully navigate the changing, competitive environment for commercial and technical payments.



02 EVOLVING PAYMENT USER NEEDS

While the move to instant (real time) payments was a key trend identified in previous Fiserv payments surveys, as they become a reality, the attention is moving towards how they can be utilised to address the evolving needs of payment users and support payment users who traditionally use non-electronic forms of payment. This year, the survey focused on two areas:

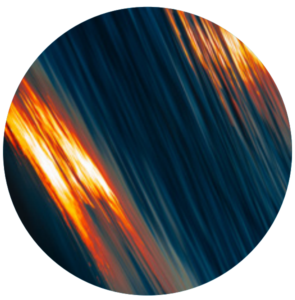
- The role that overlay services have in addressing the needs of payment users
- Inclusion of all payment users in electronic payments.

Financial institutions are moving the discussion on from the provision of instant payments to focus on how they can bring value to the payment users as they interact.

OVERLAY SERVICES

As instant payments, based on increasingly ubiquitous standards, become the new normal for financial institutions in both their home and overseas markets, the importance of the overlay services that they offer to their consumer and corporate customers increases.

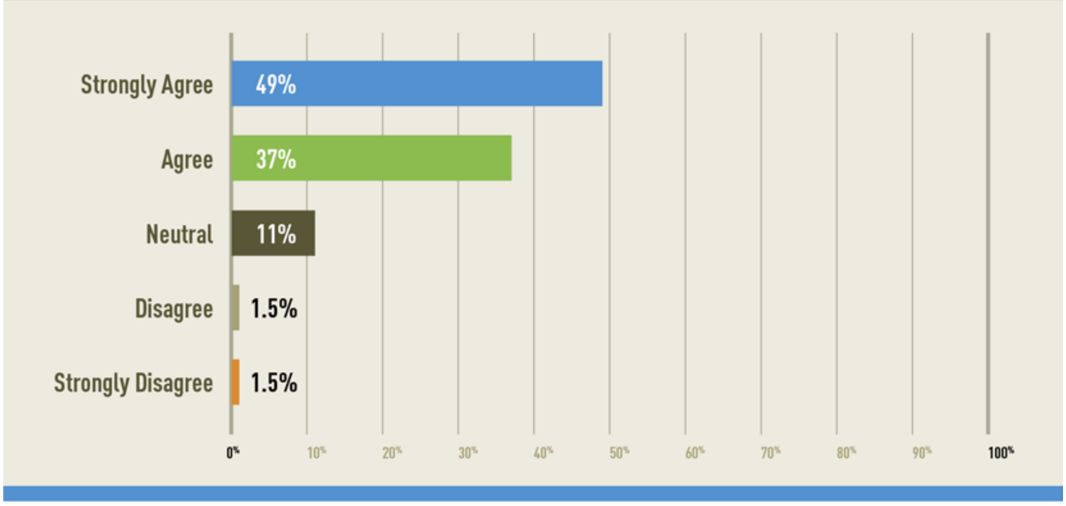
Overlay services are important for financial institutions. They can differentiate their payment proposition by offering a range of value-added services to improve their customer service and generate new revenue streams to offset the reduction in payments income due to the increasing commoditisation of payments and the entrance of new providers into the market. For payment users, they can embed the payment element within the overall interaction, reducing payment friction and increasing value.



Question 1: To what extent does my bank agree with the following statements about the potential benefits offered by overlay services:

CHART 1.1

OVERLAY SERVICES CAN ENABLE ALTERNATIVE PAYMENT METHODS*



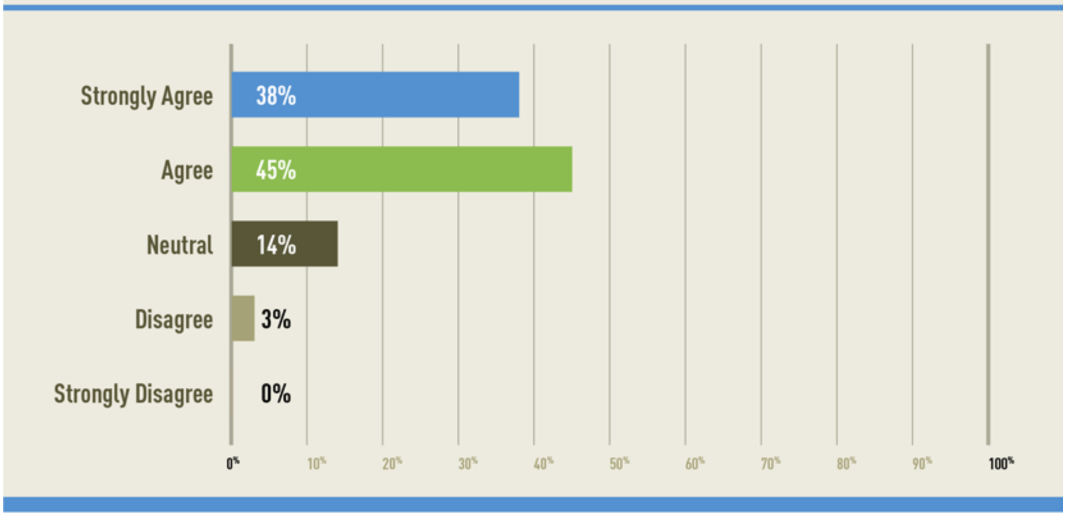
** e.g. QR codes, Request to Pay, EIPP, Point of Sale*

With regard to the strategy financial institutions deploy towards the development and deployment of overlay services, 86% of respondents agree that offering a range of alternate payment methods is an important part of it.

By providing a broad range of new payment options, financial institutions can seek to differentiate themselves from their competitors in both their consumer and corporate markets and support greater financial inclusion.

CHART 1.2

OVERLAY SERVICES CAN PROVIDE NEW VALUE-GENERATING CUSTOMER PROPOSITIONS*

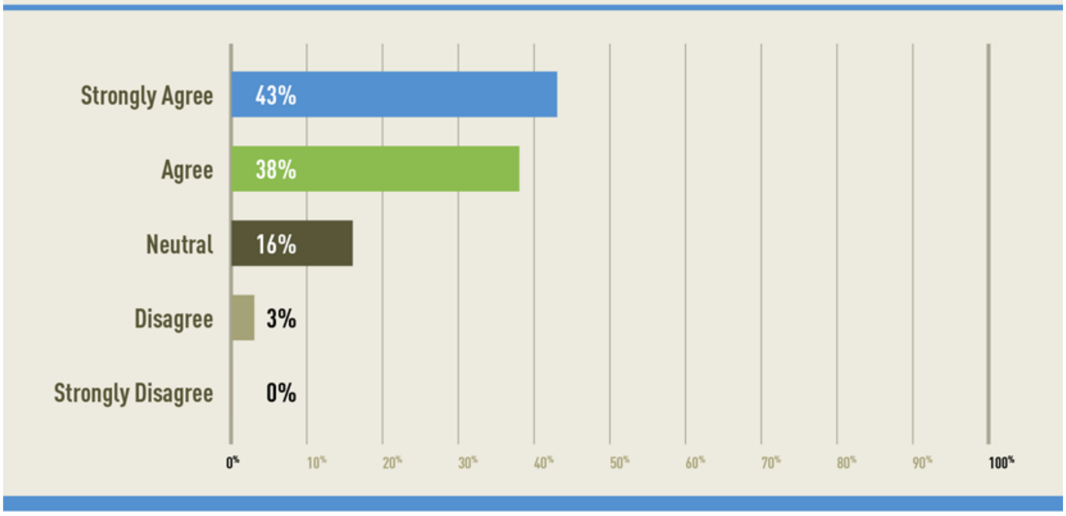


** e.g. cash flow and liquidity management*

While responders agreed that the introduction of overlay services provides new income streams, the reduction in the Strongly Agree rating from 49% in question 1.1 to only 38% in question 1.2, suggests a lack of confidence in how they can incorporate overlay services into their payment user offerings and generate value as part of the overall value chain. While overlay services have been discussed for a number of years, this question highlights that there is still uncertainty around what they are and how they might add value. If the value proposition has yet to be defined clearly, organisations are likely to wait until their competitors make a move before they do.

CHART 1.3

OVERLAY SERVICES CAN ENABLE REAL-TIME ACCOUNT-TO-ACCOUNT TRANSFERS*



****e.g. social media (WhatsApp Pay, GooglePay), mobile and merchant platforms***

The ability of overlay services to enable the tech giants to enter the account-to-account payments market is clearly a concern to financial institutions. The vast user communities of the likes of Google and Facebook (the owners of WhatsApp) combined with their technical expertise mean they are perceived by some in financial services as being potentially significant challengers in payments.

The survey also reveals a lack of balance i.e., uncertainty in the market between the 74% who agree in Question 3.4 that payments consolidation will increase competition and choice, and the 81% who agree that overlay services will enable new entrants to enter the market and new payment methods. Just as with the capacity of overlay services to provide new sources of income in Question 1.2, it is not yet clear how new overlay services will impact the payment market overall.

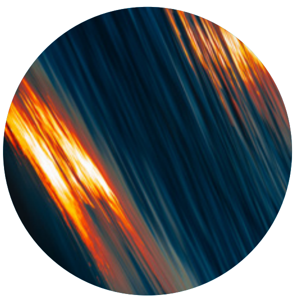
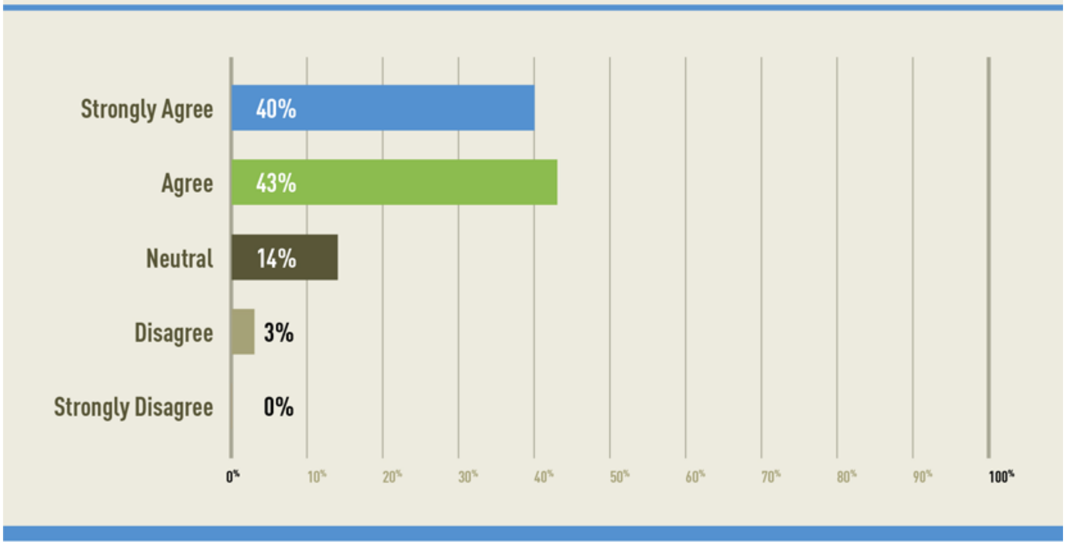


CHART 1.4

OVERLAY SERVICES CAN SUPPORT THE PROVISION OF ENHANCED DATA



The responses to this question clearly show the importance of new overlay services to financial institutions. Turning data into highly valuable information through the deployment of overlay services is based on the capture and better use of data, as well as understanding the context in which that data was generated. Over the last year, there has been a surge of activity from financial institutions looking to deploy new tools such as artificial intelligence, machine learning and data analytics in order to provide new propositions to both their consumer and corporate customers. Many such initiatives have seen financial institutions acknowledge the importance of this and some opt to work with specialist third-party partners to develop propositions.

Any perceived competitive threat posed to financial organisations by the technology giants noted in question 1.3 can only be heightened by their expertise and experience in using sophisticated data analytics tools to gain deep insight into the personal and business lives of their users. The tech giants truly understand how to monetise data, and although financial institutions are playing catch up in this area, overlay services can provide them with the key tools they need.

FINANCIAL INCLUSION

For several years, the use of cash by payment users has been in decline, although the rate of decline is not consistent across countries or regions. There are numerous reasons for this decline, from ease of use of electronic payments through to governmental regulation. Countries such as Sweden and the UK have seen the use of contactless debit cards and mobile overtake the use of cash to pay for goods and services. Furthermore, cash-centric countries such as Indonesia have implemented modernisation strategies to migrate to a cashless society.

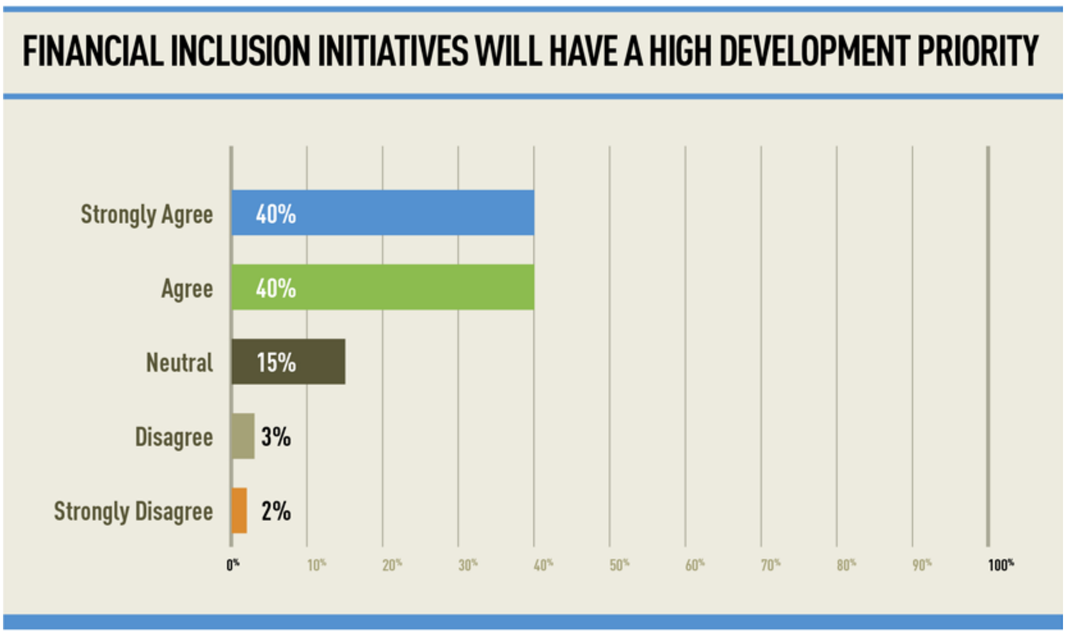
The transition away from cash highlights the issues that payment users using cash have in integrating with the new payment ecosystems and, therefore, their wider inclusion into the financial environment.

This has been brought into sharper focus, particularly in the developed world, by COVID-19. Many individuals who do not have bank accounts, and associated card and mobile payment products, have struggled to manage their financial needs in increasingly digital societies where the use of cash has been in decline.

In broader terms, The World Bank defines financial inclusion as meaning: "Individuals and businesses (that) have access to useful and affordable financial products and services that meet their needs - transactions, payments, savings, credit and insurance - delivered in a responsible and sustainable way." The World Bank goes on to say: "… being able to have access to a transaction account is a first step towards broader financial inclusion since a transaction account allows people to store money, and both send and receive payments… ."

Question 2. To what extent does my Financial Institution agree with the following regarding its approach to financial inclusion:

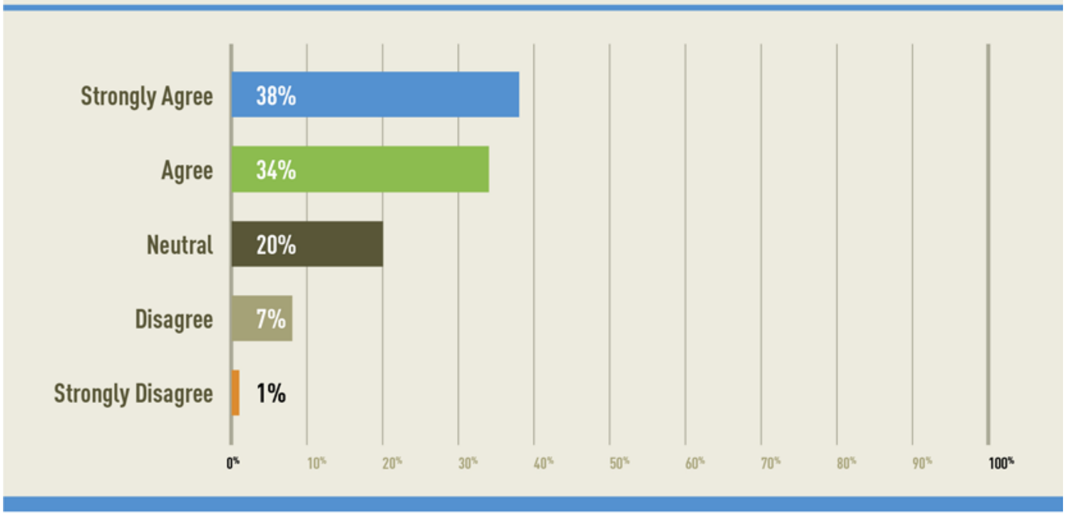
CHART 2.1



With 80% of responders agreeing, clearly the development of initiatives aimed at addressing the issues around financial inclusion are important for financial institutions.

CHART 2.2

FINANCIAL INSTITUTIONS ARE ACTIVELY DEVELOPING NEW FINANCIAL INCLUSION USE CASES*

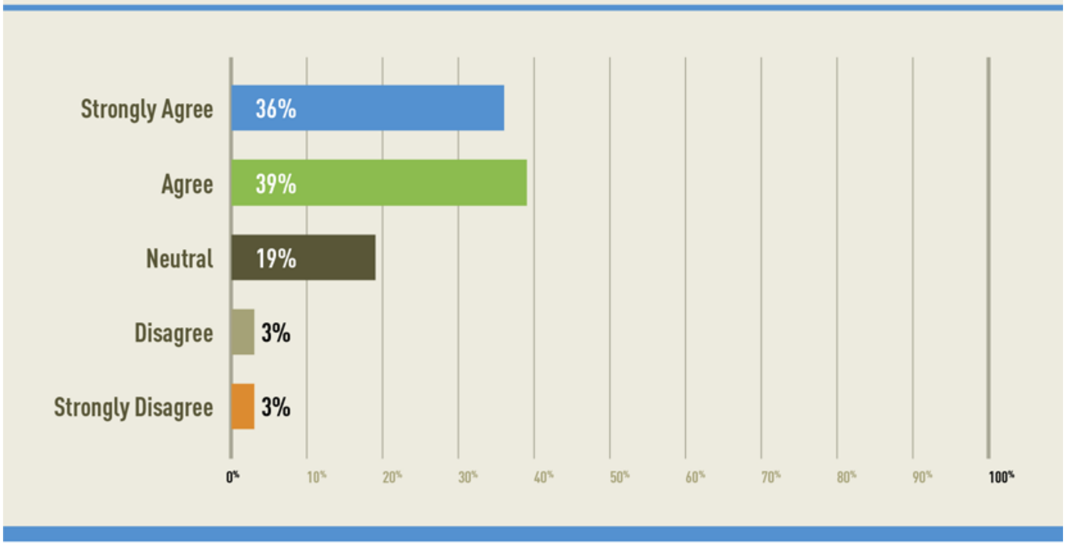


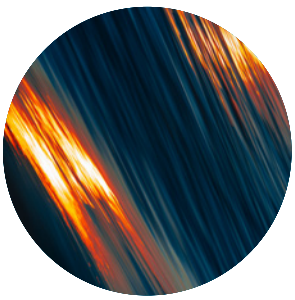
** e.g. pre-paid cards, QR codes, services for those with no mobile connection*

While 72% of responders confirmed that they are working on new use cases, a significant 28% of financial organisations have a much less positive view as to the importance of financial inclusion. This is perhaps surprising given the 80% agreement to Question 2.1 - Financial inclusion seems more important to most financial institutions in theory (as an aspirational area for development), than it does to some of them in practice i.e., in work on specific use cases. This suggests that government or central bank action may be necessary before the topic of financial inclusion achieves wholesale traction across the industry.

CHART 2.3

FINANCIAL INCLUSION OFFERS BANKS THE OPPORTUNITY TO DIFFERENTIATE THEMSELVES THROUGH INNOVATION





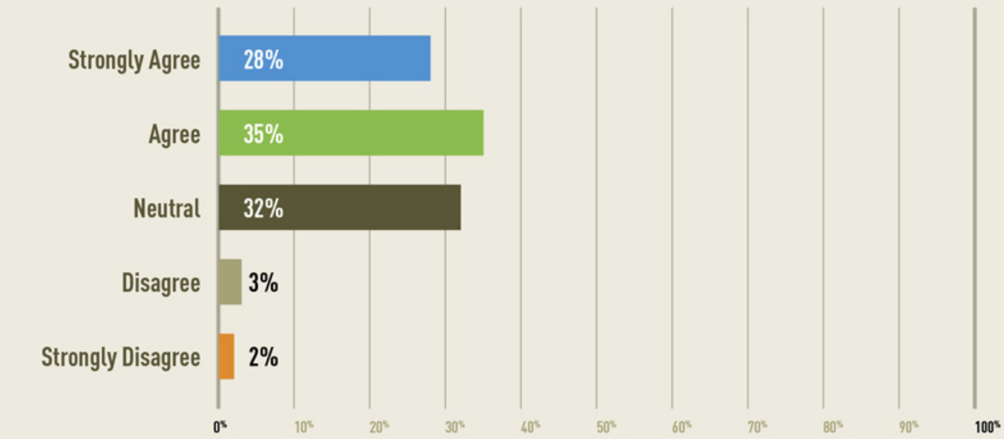
The variety of issues and needs associated with financial inclusion, as noted in the World Bank definition given above, makes it an area ripe for development through the introduction of innovation solutions - and 75% of responders agree with this view. However, a significant 25% are much less positive in this area.

Yet it is perhaps difficult to see how the existing products and processes (e.g., KYC) of financial institutions can provide appropriate solutions to the needs of individuals and businesses who, cash aside, are currently excluded from the financial products and services they need.

In contrast to this, responses to the next question suggest that COVID-19 hasn't provided any additional impetus to the importance of financial inclusion developments in financial institutions.

CHART 2.4

HAS COVID-19 ACCELERATED FINANCIAL INCLUSION



The responses here are much more in the centre of the graph - in the increased and no-change focus - rather than in the significantly increased focus seen in the other COVID-19-specific questions asked within the survey. This appears to imply that financial institutions are struggling to identify any financial value in the provision of products and services targeted at increased financial inclusion, similar to the suggested lack of confidence in deriving value from overlay services.

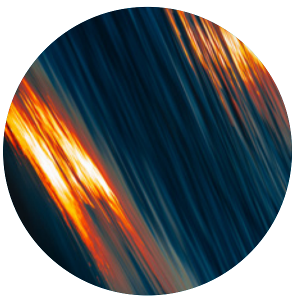
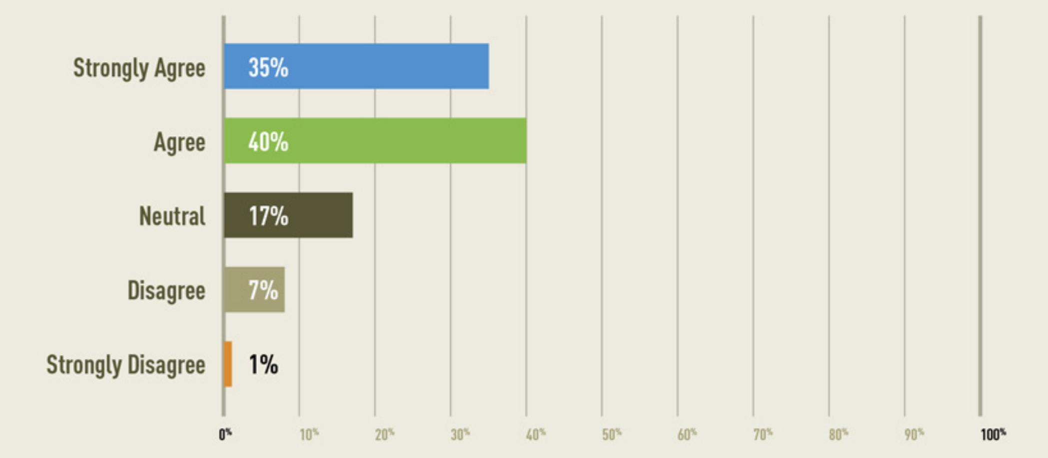


CHART 2.5

THE EASY PROVISION OF CASH IS IMPORTANT



It is clear that a large number of people (particularly at the ends of the demographic profile – old and young) are dependent on cash. They will have struggled to cope in a post-pandemic society in which the provision of services have become largely dependent on mobile connectivity and no-touch payments.

Cash remains important for society and so it is a positive indicator that responses to the survey (with 75% agreeing) demonstrate financial institutions' ongoing commitment to cash. However, evolving payment user requirements will continue to see the use of cash decline at an ever-increasing rate.

03
DRIVING VALUE AND REVENUE

Financial institutions' focus is pivoting from how to implement or play catch up on modernisation strategies to how they can drive value and revenue from new payment options. There is a need to simplify and consolidate multiple payment rails to ensure they are providing value to both existing payment users and new segments.

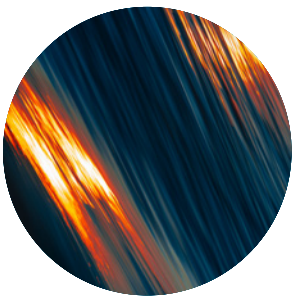
Consolidation of rails, as we see from the responses that follow, are seen to galvanise efforts towards new overlay services, while at the same time introducing new competition vectors and significant cost-saving potential.

The simplification of payments to an instant, push credit transfer with instant finality and 24/7/365 availability model propels payment transactions to be treated as the commodity they are, while allowing value to be derived from the overlay services surrounding them. By doing so, financial institutions are able to separate out payment processing and customer experiences from which they will generate value and revenue.

Whether the same experience is provided to the payment user or the experience is embedded in the interaction between two payment users, consolidation of payment rails ensures the attention is on supporting the payment user rather than processing the payment.

As the following responses show, simplification across systems, processing, processes and ecosystems can lead to greater understanding of what the payment user values and create revenue generation in an environment where the payment element is generally deemed a low-cost commodity.

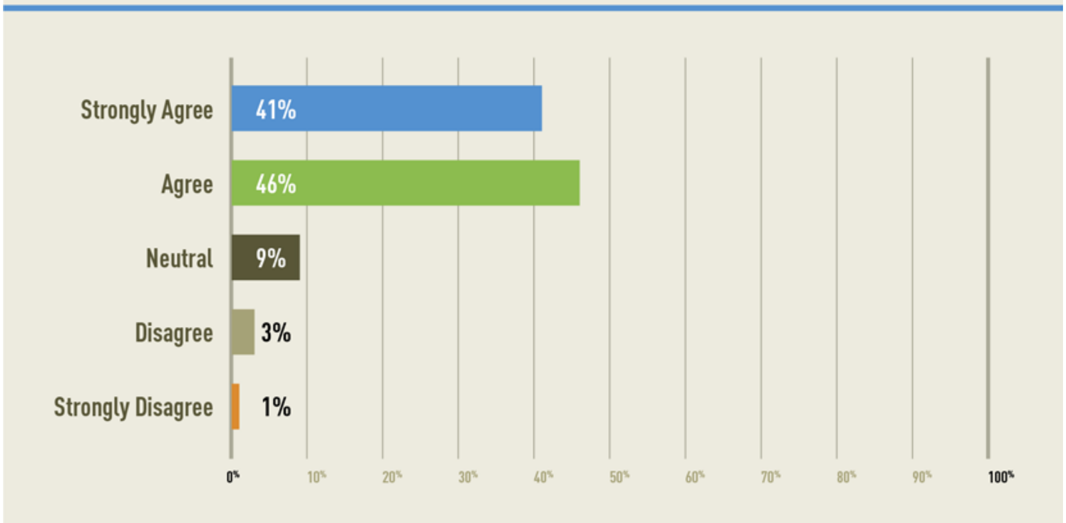
As payment rails are consolidated (e.g., card transactions and account-to-account payments; ACH, RTGS and instant), there is an opportunity to develop new sources of revenue as well as meet customer expectations.



Question 3 - As payment rails are consolidated (e.g., card transactions and payments; ACH, RTGS and instant), to what extent does my Financial Institution agree with each of the following:

CHART 3.1

CONSOLIDATION IS DRIVEN BY THE GLOBAL GROWTH OF INSTANT PAYMENT SCHEMES

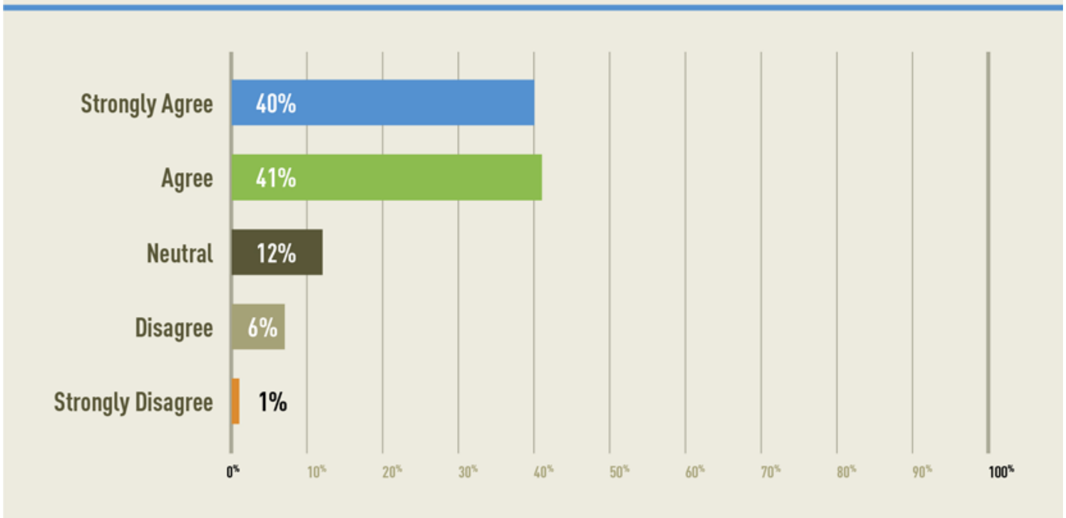


New payment rails have been and continue to be introduced in more than 50 countries. The driver is an irresistible shift to a real-time, instant movement of funds with the same finality and availability as traditional cash payments. The rapid decline in the use of cash and the rise in contactless, card and mobile payments contributes to this and the trend is set to continue.

Correspondingly, the move toward the instant transfer of funds for consumers, small and medium businesses, and corporates for the secure handling of payments in a transparent, trackable and fast way with finality is increasingly the expectation of payment users.

CHART 3.2

CONSOLIDATION PROVIDES THE OPPORTUNITY TO GENERATE NEW SERVICES AND SOURCES OF INCOME



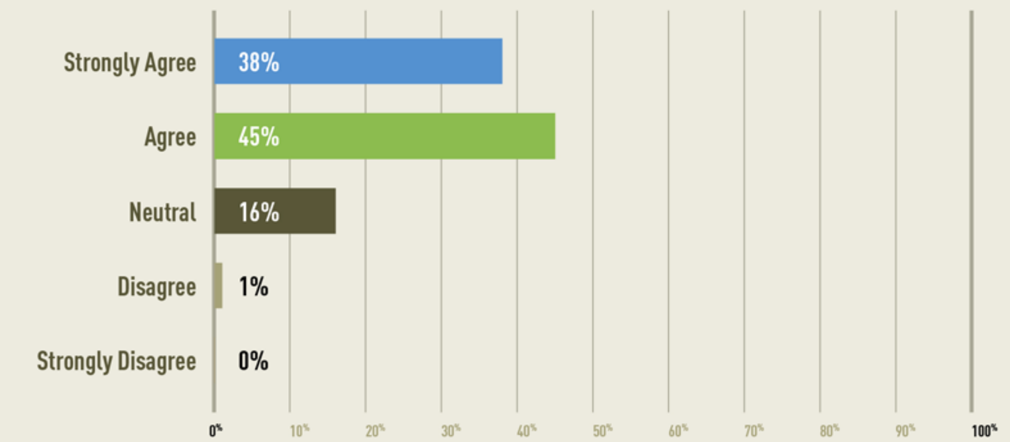
The question that emerges from the clear desire to consolidate payment rails is the benefits it brings in the form of driving new services and sources of revenue. Eighty-one per cent of respondents acknowledge the opportunity. The introduction of instant payment schemes forces financial institutions to reassess their strategies and future business models.

Payment services are becoming increasingly commoditised and therefore expecting future revenue that is dependent on payments is a flawed strategy, especially in an age where open banking is fostering greater competition. The challenge is how to extract new forms of revenue, generate value from the movement of funds, provide greater visibility for cash management, normalise data across all payment types and support innovative overlay services.

While respondents have identified that consolidation will drive opportunity, Question 1.2 shows that financial institutions are still uncertain on what these value opportunities would look like. In the near term, it is worth the effort not only to meet customer expectations, but also to embrace potential cost savings.

CHART 3.3

CONSOLIDATION IMPROVES SERVICES TO CORPORATES AND REDUCES THEIR IN-HOUSE COSTS



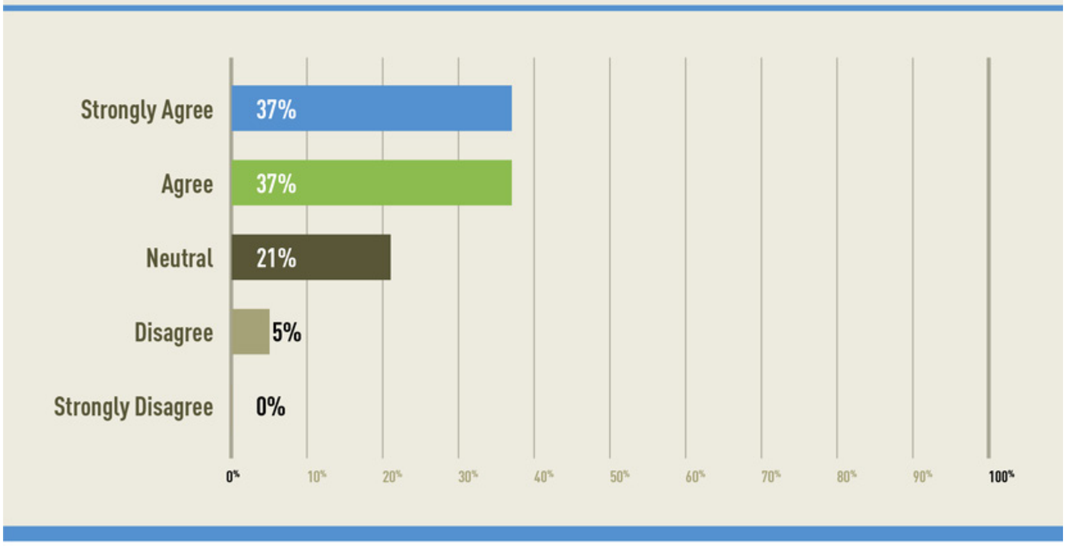
The consolidation of payment rails is welcomed as a means to improve services to the corporate sector with resultant clear cost benefits to them. Although there is a distinction between the strength of agreement, 83% of respondents agreed with this statement.

Responses to all questions in this section point towards consolidation of payment rails as offering significant benefits and the potential to be a game changer for financial institutions and corporates. Consolidation drives end-to-end efficiency of handling payments in a trackable instant environment, and better services on offer to corporates.

The path financial institutions choose to adopt, and the pace they wish to advance, varies. There is still considerable strategising around innovative new services that will be the most beneficial and profitable. With services still emerging, evolving their organisations to keep pace with the digital shift to the future of banking and embracing new business models, skills and technology, will be daunting and challenging for financial institutions.

CHART 3.4

CONSOLIDATION OF PAYMENT RAILS WILL INCREASE COMPETITION



Agreement is resounding that consolidation will drive competition, but the neutral stance shows that there is uncertainty at the level of change in the ecosystem.

The consolidation of payment rails is highlighting new trends. Firstly, a spate of acquisitions and mergers by financial institutions, technology companies and card providers to enhance their position in the market through disruption has increased the competition, attracting scale and driving value.

Secondly, the announced launch of a new European payments initiative backing a collection of financial institutions looking to edge out the dominance of card providers (Visa and Mastercard) and infrastructure players (Google, Allipay Amazon and Apple) in Europe is likewise set to introduce market pressure in the form of new entrants. The direction this will take is unclear, but it is a factor not to be ignored when looking at competition between providers of services.

Simplification of payment types is critical to driving revenue and value from what is becoming a simple commodity in the minds of payment users. At the centre of simplification is a move to instant push credit transfers, with instant finality, available 24/7 and the need to create overlay services that provide both the existing user experience and a platform for innovative, value added services.

04
EMPHASIS ON EFFICIENCY AND OPERATIONAL RISK

While there is attention on payment user needs and the direction that financial institutions need to take to understand the value they can provide and the possible revenue opportunities, it is just as important to understand the platforms and processes needed to make this a reality.

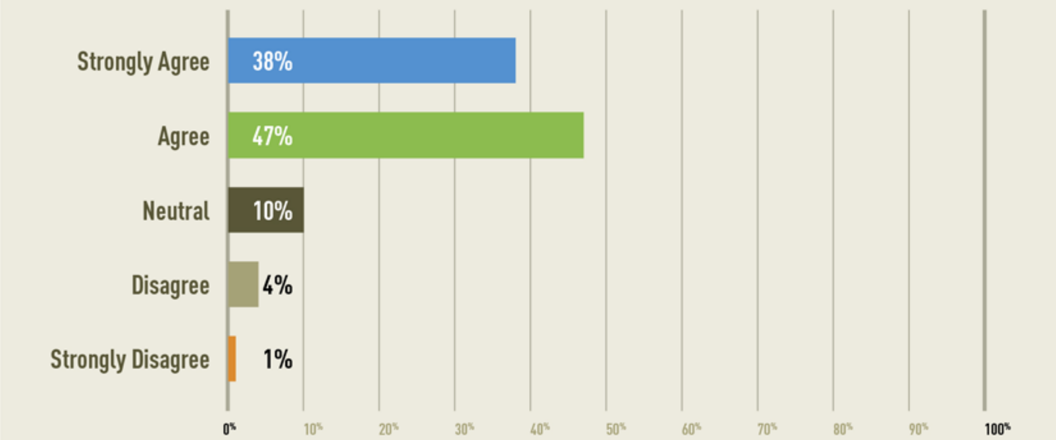
Placing emphasis on efficiency and reducing operational risk is critical in a 24/7/365 environment that cannot afford downtime or failure. In a world of constant and instant social interaction, a financial institution's payment users are likely to know that there is a problem with their service before the operational support teams. Operational risk is not just about resiliency of systems, but also resiliency of processes – and using enhanced data and pattern analysis can detect issues before they become problems.

In parallel, instant payments is driving convergence of payment types. Migration to a single payment platform offers many benefits but will take time. Combining multiple payment types onto a single platform is one way to go and could help simplify systems, processing, processes and operational oversight.

Question 4 - As payment rails converge, to what extent does my Financial Institution agree with each of the following:

CHART 4.1

THERE IS CONCERN ON THE COST OF SUPPORTING MULTIPLE LEGACY INFRASTRUCTURES*



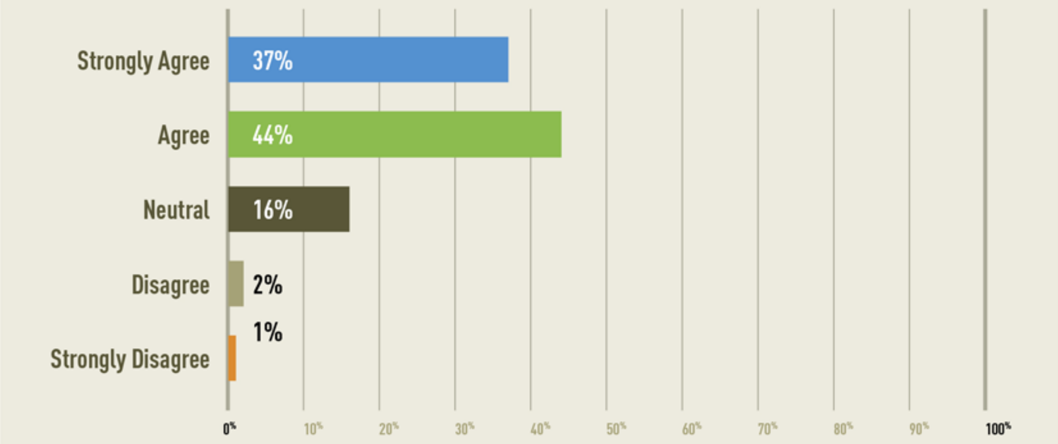
** cards, ACH, RTGS and instant payments*

The message is straightforward: the ongoing cost of maintaining multiple legacy infrastructures is a significant investment with 85% of respondents highlighting this as a concern. As new payment rails develop, and with the potential for convergence, financial institutions have to assess their impact on the existing payments ecosystem and the complex interactions between core systems, including fraud solutions and accounting platforms.

It is clear that financial institutions need to adopt a strategic approach to managing and maintaining existing infrastructure and modernising their payments platforms, and not just focus on the stability of single elements, but on how these complex systems interact through what has become a complex middleware architecture.

CHART 4.2

CONCERN AT GROWING REGULATORY AND COMPLIANCE COSTS OF MANAGING INFRASTRUCTURES SEPARATELY



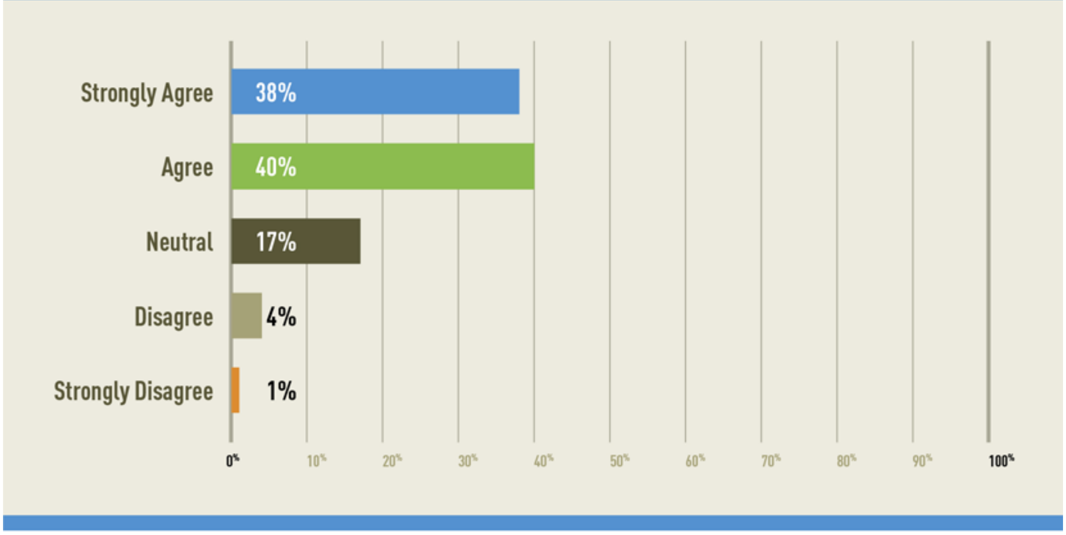
There is a clear link between maintaining or modernising legacy infrastructure with the cost and oversight necessary to keep pace with compliance and regulatory mandates. Compliance is an ongoing concern for financial institutions and the trend for increasing regulation is one that is not decreasing.

Just as organisations are adopting agile development processes, so are regulators and market infrastructures adopting a similar approach of smaller, focused, and more frequent changes.

Consolidation of multiple payment types within a single solution enhances the value that a financial institution can provide to its payment users, ensuring a frictionless experience.

CHART 4.3

PRESSURE ON PAYMENTS REVENUE AND FOCUS ON PROVIDING NEW OVERLAY SERVICES

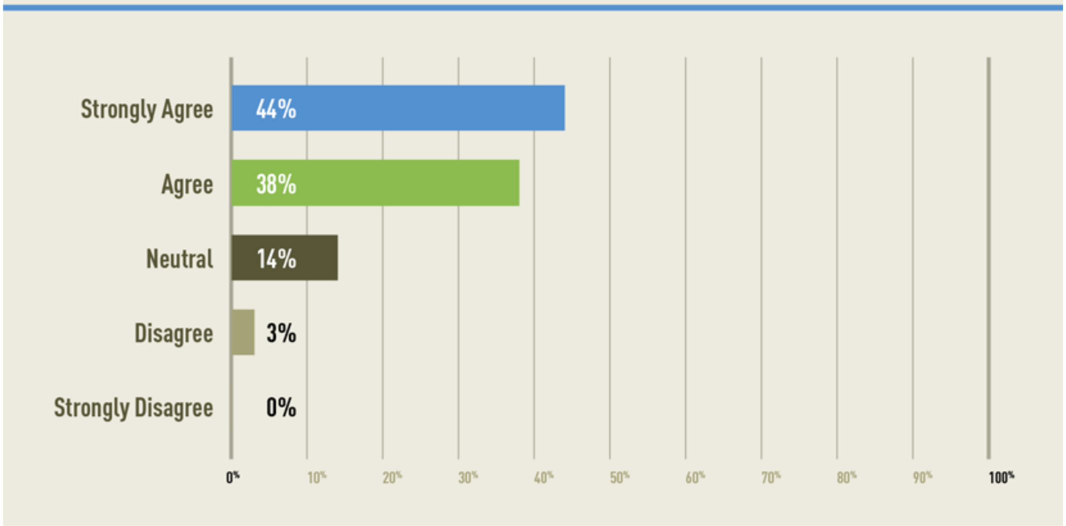


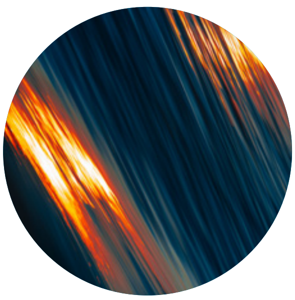
A large component of income for financial institutions is from traditional products and services. However, payment user expectations of the value they expect to receive from their payment providers is changing. Competition in the form of challenger banks and fintechs/paytechs is a constant pressure. This, together with the commoditisation of payments in an instant, digitally-driven economy, means that revenues from payments are being squeezed.

The responses suggest the acceptance of a need to provide new services and that financial institutions must respond to changing customer expectations.

CHART 4.4

SHIFT IN CUSTOMER EXPECTATIONS TO CONTACTLESS AND INSTANT PAYMENTS





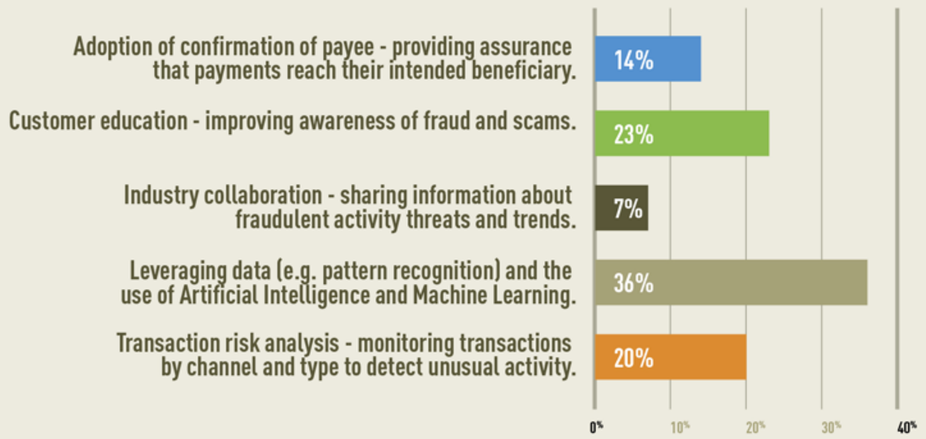
The payments industry has seen significant growth in instant payments and digitally-led services alongside behavioural changes and expectations in the way payment users move funds. The accelerated adoption of contactless payments and digital transactions offered by a wider choice of providers, and which are often free, has changed what payment users expect from their financial institutions.

As open banking, Request to Pay and instant payments become better understood and more widespread, the expectation of payment users will rapidly change. Financial institutions will need to develop new strategies to tap into this changing market and derive new value and revenue.

There is a correlation between the volume of instant payments and fraud activity, and both are increasing. As the time available to detect fraudulent transactions continues to decrease, fraudsters are attempting to take advantage of payment users by targeting the fastest payment rails.

CHART 4.5

MOST IMPORTANT FACTORS TO DETECT AND PREVENT FRAUD



While some attempts to protect payment users from fraud such as confirmation of payee and increased education are seen as deterrents, it is clear from the response that effective use of data, pattern recognition, artificial intelligence and machine learning tools at the time of processing the transaction is critical to detecting and preventing fraud.

The low score for industry collaboration could be indicative of some organisations not having access to extensive data and pattern analytics tools. It could also highlight the relative reticence of financial institutions to divulge certain vulnerabilities due to the fierce competition in the industry.
The responses on fraud reinforce data as the still-to-be-exploited tool with which to develop new services, revenue, stay secure and, competitive.

05

DEMAND FOR FORECASTING AND EFFECTIVE USE OF CASH AND LIQUIDITY

Proactive and effective intraday cash and liquidity management drive value to a financial institution's payment user as well as addressing operational risks within the organisation itself. The availability of cash and the ability to monetise assets quickly to ensure that obligations can be met in a timely manner is critical in allowing both payment users and financial institutions to optimise their resources effectively and reduce funding costs and liquidity risks.

The management of intraday liquidity requires strong and robust systems, quality data, good processes and controls to ensure that expected obligations are tracked against actual transactional activity and available liquid resources.

There is increasing regulatory pressure on financial institutions to manage their intraday liquidity risk effectively. With the industry moving towards real time and faster payments, the need for real time liquidity monitoring has never been greater.

The growth of domestic instant payment schemes, faster cross-border capabilities and emerging technology challenges redefines the world of cash and liquidity management.

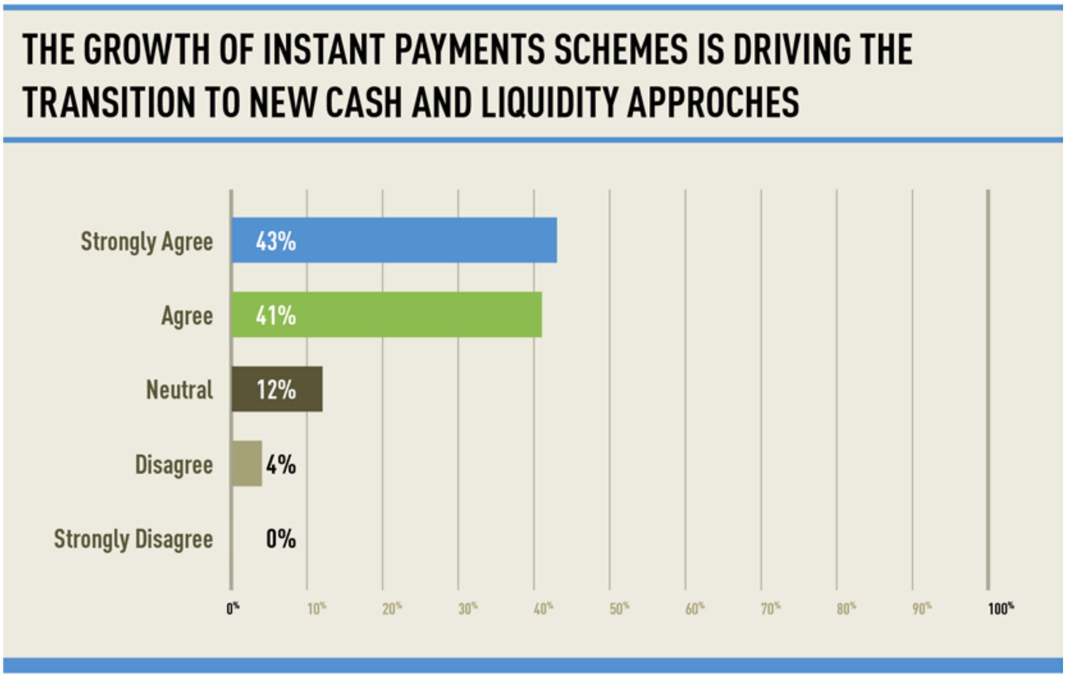
As these instant payment schemes continue to proliferate across the globe, so do the potential benefits to financial institutions and, increasingly, the corporate sector. Financial institutions are beginning to explore opportunities to harness the real time movement of money and transaction data to improve cash and liquidity management services and products.

There is clear evidence that financial institutions are transitioning and adopting a new approach towards future cash and liquidity management services.

Eighty-four per cent of respondents agree with the statement that real time cash and liquidity services will provide greater visibility, access and control to corporate treasurers of their bank account balances, transactions and money, movements, as well as future payables and receivables information.

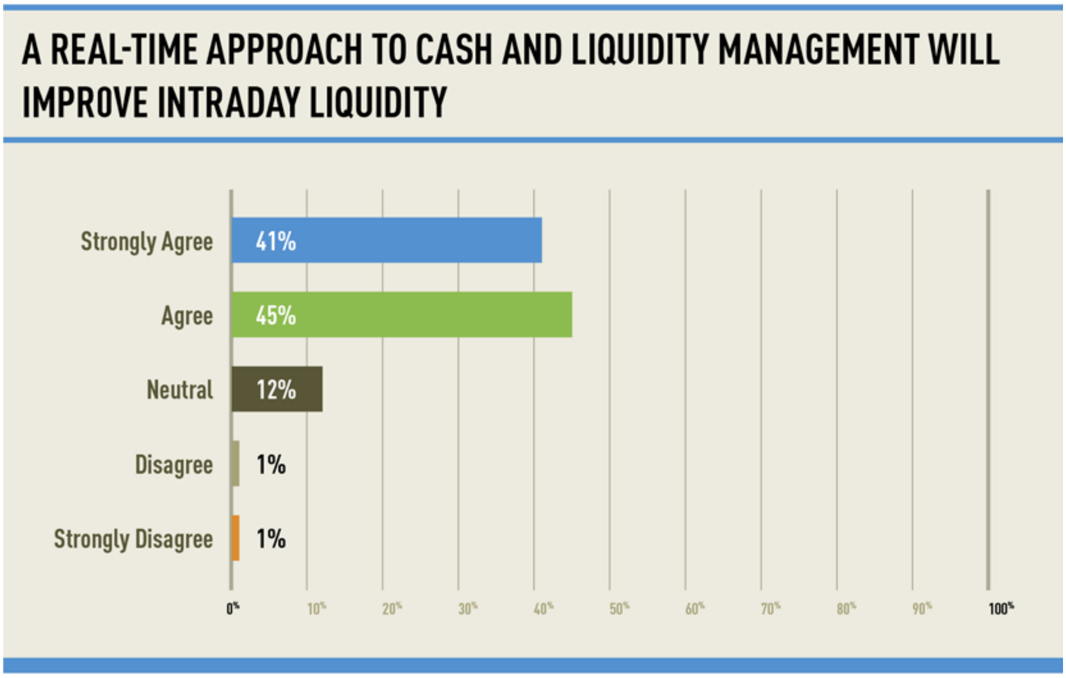
Question 5. To what extent does my bank agree with the following statements about Cash and Liquidity Management

CHART 5.1



Increased visibility and understanding leads to better margins from liquidity management as well as improved risk management.

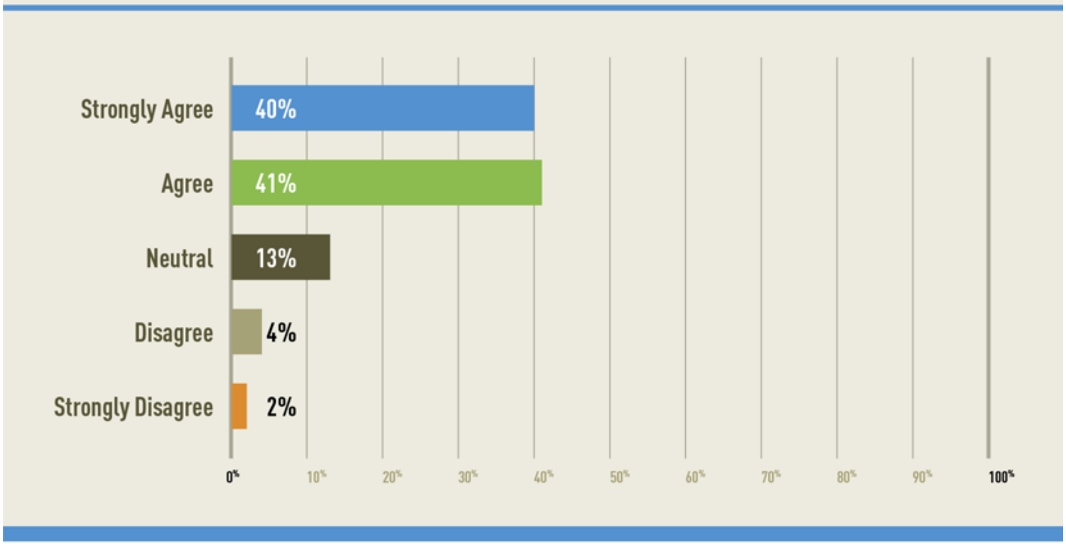
CHART 5.2



As the traditional end-of-day settlement cycles are fading, opportunities and threats are emerging. Managing multiple bank accounts across different countries and currencies in real time is a complex business. Corporate treasurers expect their financial institutions to provide real-time insights of their cash and liquidity positions without having to make substantial investment in management systems.

CHART 5.3

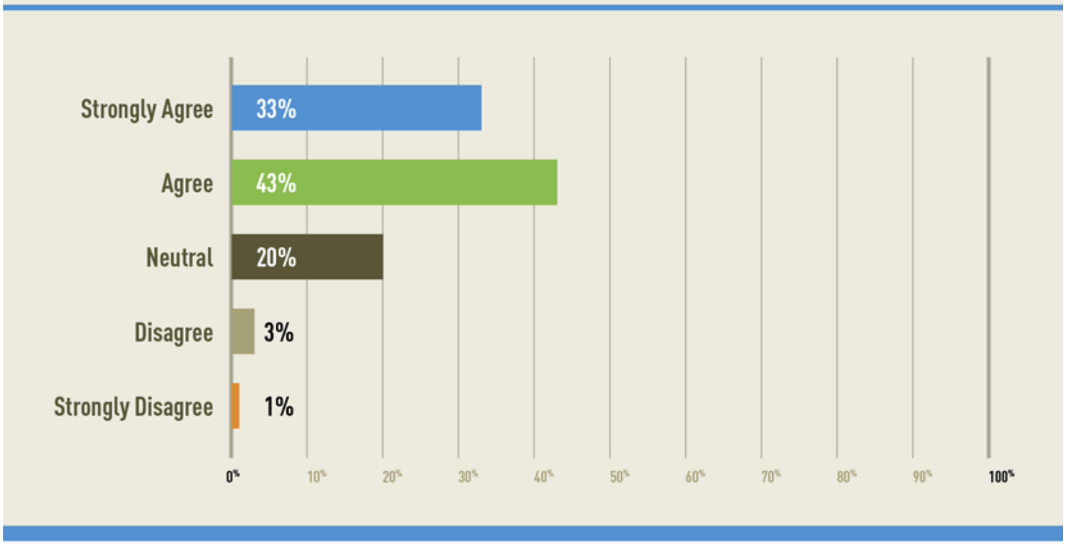
OPEN APIs ENABLE NEW SERVICES WITHOUT THE NEED FOR ERP UPGRADES

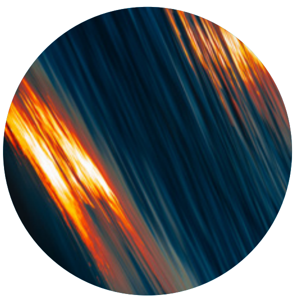


The use of open APIs by financial institutions to offer new services to corporates without their need to upgrade ERP systems received an overwhelmingly strong response of 81% with hardly a dissenting voice. There is clearly a strong strategic imperative for financial institutions to provide cash and liquidity solutions to their corporate customers as a value-add to their payments capability. There are significant benefits to corporates through real time, automated solutions providing unified views of bank accounts, integrated transaction data and improved cash forecasting.

CHART 5.4

SWIFT GPI SIGNIFICANTLY IMPROVES FINANCIAL INSTITUTIONS CASH AND LIQUIDITY MANAGEMENT





The aim of SWIFT's Global Payment Initiative (gpi) is to improve the handling of international payments for payment users. The initiative is focused on four key principles: fast payments; end-to-end tracking and tracing of individual payments in real time; fee and forex transparency and enhanced provision of transaction data.

However, the extent of any significant improvements this generates to corporates' management of cash and liquidity is less favourable than other responses.

One conclusion is that SWIFT gpi is only providing benefit between financial institutions who depend on each other to affect international payments without this generating strong enough benefits to corporate cash management.

Another conclusion is that SWIFT is paying a lesser role in cross-border payments and that corporates are looking to use other information-rich, instant fintech- and bank-led alternatives.

> **Managing cash and liquidity underpins payment activity and as we move into an instant, always-available environment, intraday has morphed into constant, 24/7/365 monitoring and intervention for financial institutions.**

06
PRIORITISING BUSINESS CONTINUITY

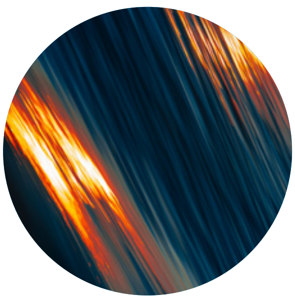
As payments transition to an instant, always available, embedded environment, business continuity becomes even more important. With sub-second processing and 24/7/365 operations, payment environments cannot be down. 'Never down' has replaced 99.999% availability to describe the environment in which payments are processed.

Business continuity encompasses not just IT systems, but the people and processes that support them. Given the strategic importance that payments have on the economy and wellbeing of the population, regulators are taking business continuity seriously, with rapidly evolving regulation aimed not just at financial institutions, but also bringing financial institutions suppliers and vendors into the regulatory oversight. Given the critical nature of payments, some financial institutions are looking towards specialist partners to provide elements of their payment solutions, such as cloud infrastructures, through to complete payment processing and operations via Payments as a Service offering.

Given the unprecedented times we are in, the impact of COVID-19 is manifested throughout the survey. In the payments environment, it has brought business continuity to the forefront and much needed improvements to take the industry forward.

Business continuity planning

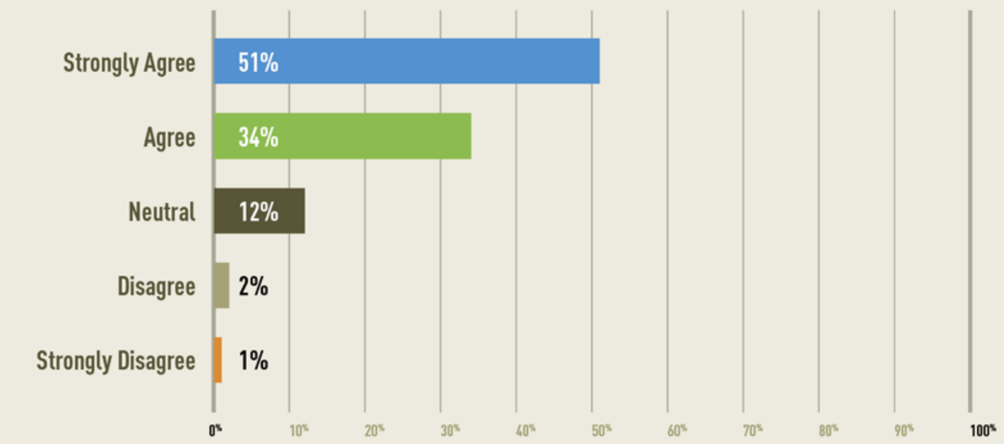
Over the last few years, there has been great change in financial institutions' attitude toward the remote use of third party computing services via the cloud. With adequate measures in place to address concerns around risk and data security, financial institutions are now embracing the significant business advantages of infrastructure in the cloud. That includes a reduction in costs associated with housing ('real-estate') and running on-premises servers, particularly around business continuity; access to a range of specialist third parties to deliver a competitive edge and ensure regulatory compliance; and the opportunity to work with a variety of partners to create complete ecosystems, for example by linking physical and financial supply chains, legal and accounting services, etc.



Question 6. To what extent does my Financial Institution agree with the following regarding its approach to the cloud over the next three years:

CHART 6.1

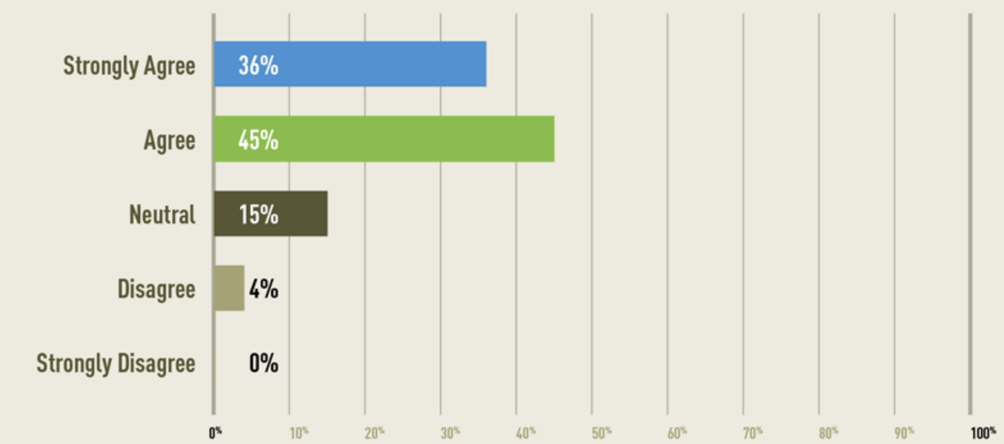
FINANCIAL INSTITUTIONS ARE INCREASINGLY ADOPTING CLOUD BASED STRATEGIES



Eighty-five per cent of responders expressed a positive view toward the cloud as demonstrated by a willingness to base their future strategies around it.

CHART 6.2

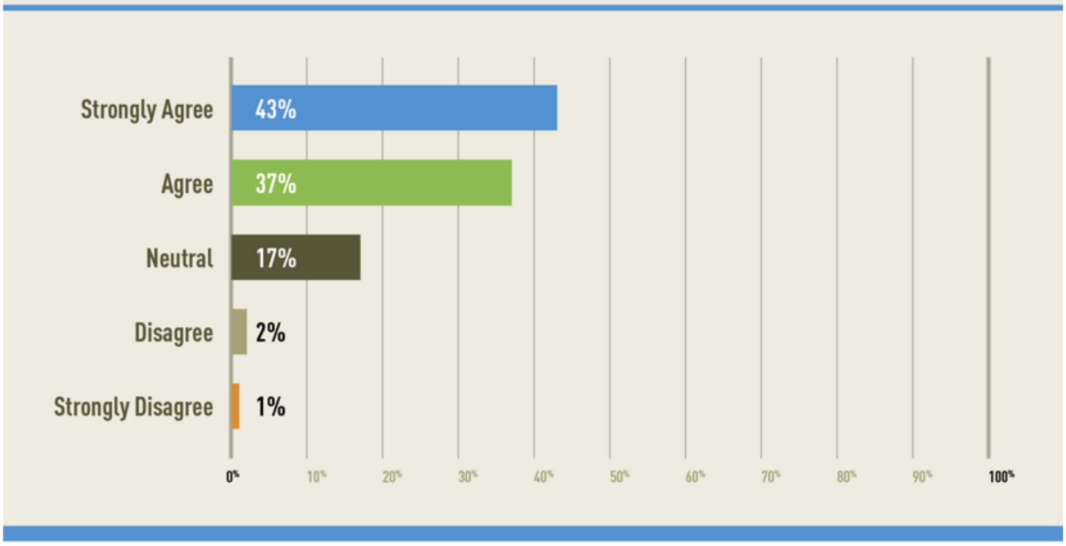
SMALLER FINANCIAL INSTITUTIONS WILL MOVE TO A MANAGED SERVICE



Only 3% of respondents appeared to be cloud-averse. The results here demonstrate a possibility that smaller institutions will go beyond the basic hosting of their IT infrastructure in the cloud, to a position in which they are prepared to allow partners to manage and provide payment services on their behalf, providing Payments as a Service. There could be several key drivers at play here, not least the fact that smaller organisations often have the same teams managing the same functions with hugely constrained budgets. If they are scaling and growing, it follows that they will look to diversify, partner and become strategic with their budgets, particularly where managing compliance is concerned. On top of this, instant payments - as we've seen in earlier responses - make it difficult for financial institutions to differentiate through payment products, and increasingly, partnerships can catalyse the creation of unique offerings.

CHART 6.3

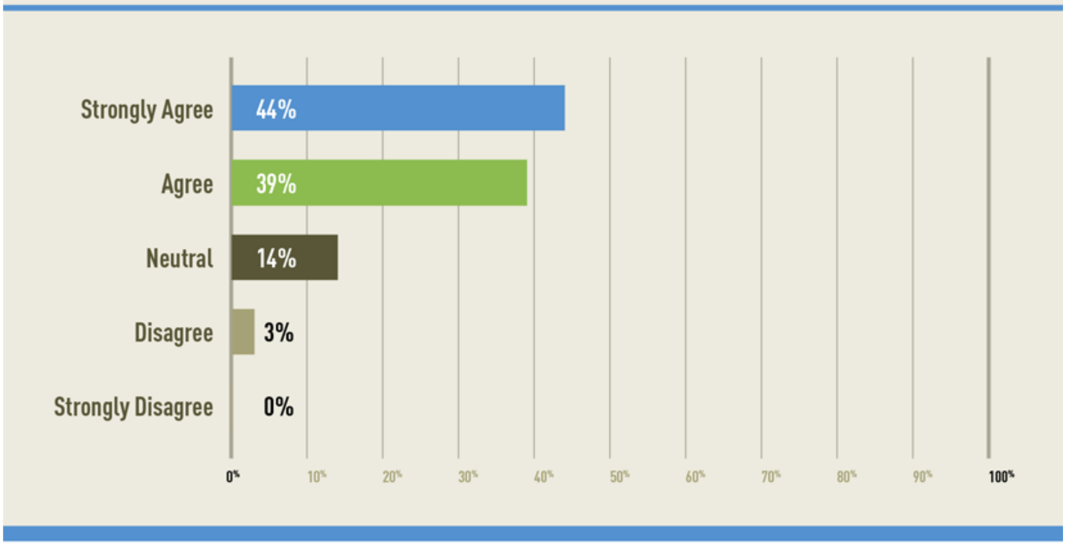
BUSINESS CONTINUITY IMPERATIVES INCREASE USE OF CLOUD SERVICES



Basing services in the cloud can provide significant benefits for a financial institution's business continuity strategy, given the remote nature of the actual IT infrastructure, the security focus given by the providers and the ability to rapidly scale to an external event. The survey responses support this view, with 80% of responders acknowledging the cloud as an enabler of business continuity.

CHART 6.4

FINANCIAL INSTITUTIONS WILL INCREASINGLY PARTNER WITH THIRD PARTIES USING CLOUD-BASED ECO-SYSTEMS



The results show that financial institutions overwhelmingly (83%) acknowledge the need to build ecosystems with a range of partners. The risk of disintermediation with the payment users and the drive to bring value are likely to be driving this response.

However, evidence from the market suggests that only a few financial institutions are actively developing such ecosystems. Those that are being implemented, focus on technical connectivity linking software partners providing services to a single business need, e.g., KYC checks and AML/ATF filtering, rather than broader range commercial ecosystems linking partners across business specialties such as banking, accounting, legal, logistics, customs, tax, etc. It is clearly early days for a definitive take on ecosystem development, and given the concern around larger tech players entering the space (as previously documented), there is perhaps still a certain amount of 'jostling for position' to come.

THE IMPACT OF COVID-19

The impact of the COVID-19 pandemic has been wide-ranging, affecting the lives of people and businesses. Financial institutions have had to continue to play their essential societal and economic role in keeping money moving and the assets of private individuals and companies protected, nonetheless. The greatly reduced contact between people necessitated by efforts to contain the spread of the virus has also influenced the way financial institutions provide their services and how their payment users access them.

In addition to the imperative of the ongoing, day-to-day need to service their customers' financial needs, COVID-19 has also influenced and changed the prioritisation and focus of current and future developments within financial institutions.

Question 7. To what extent has Covid-19 accelerated my Financial Institution's focus on or prioritisation of:

CHART 7.1

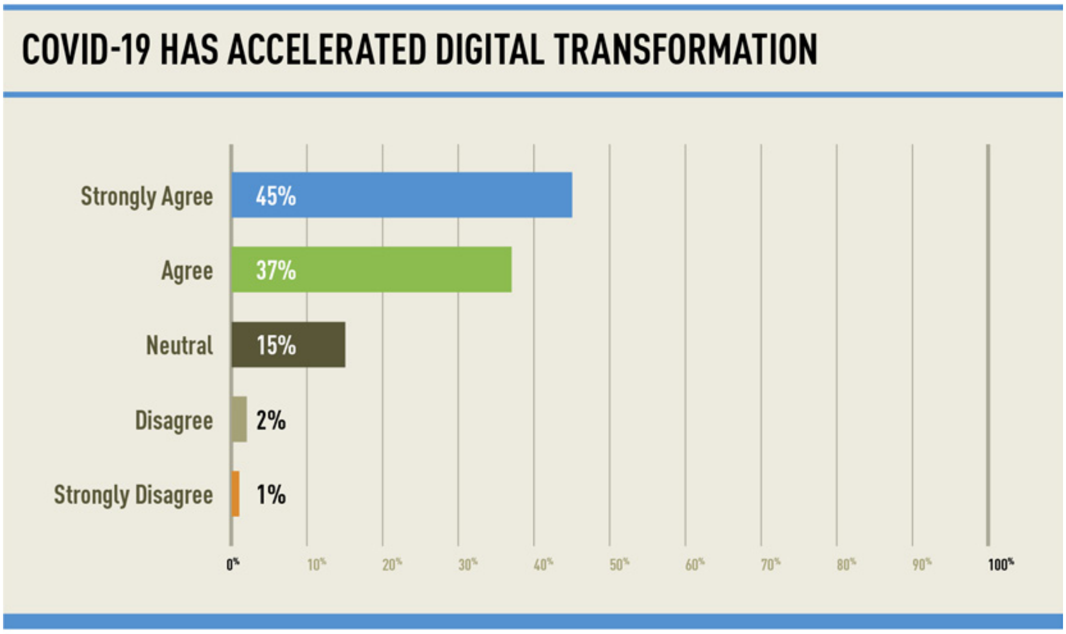


CHART 7.2

COVID-19 HAS ACCELERATED PAYMENT INFRASTRUCTURE INVESTMENTS

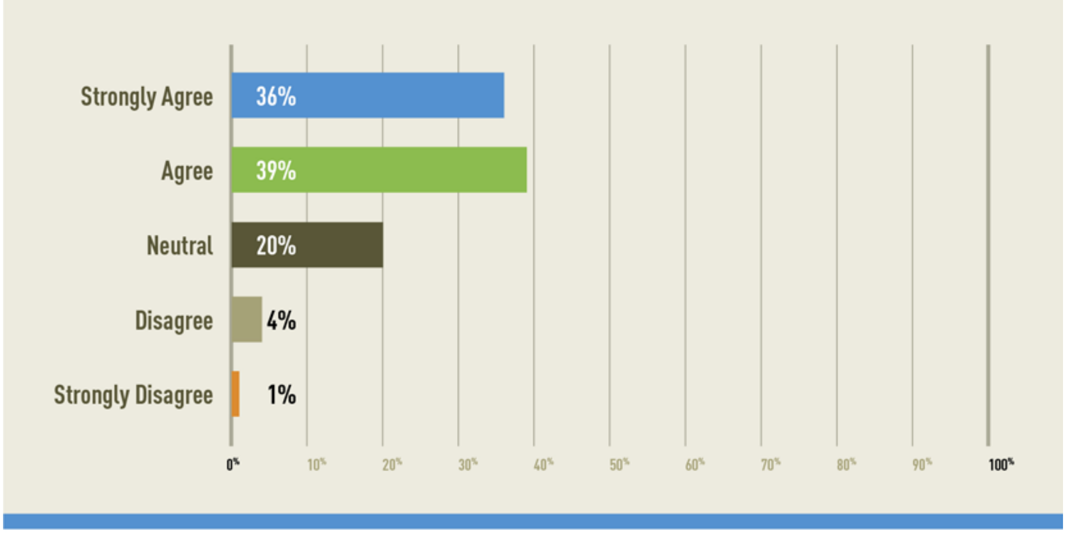
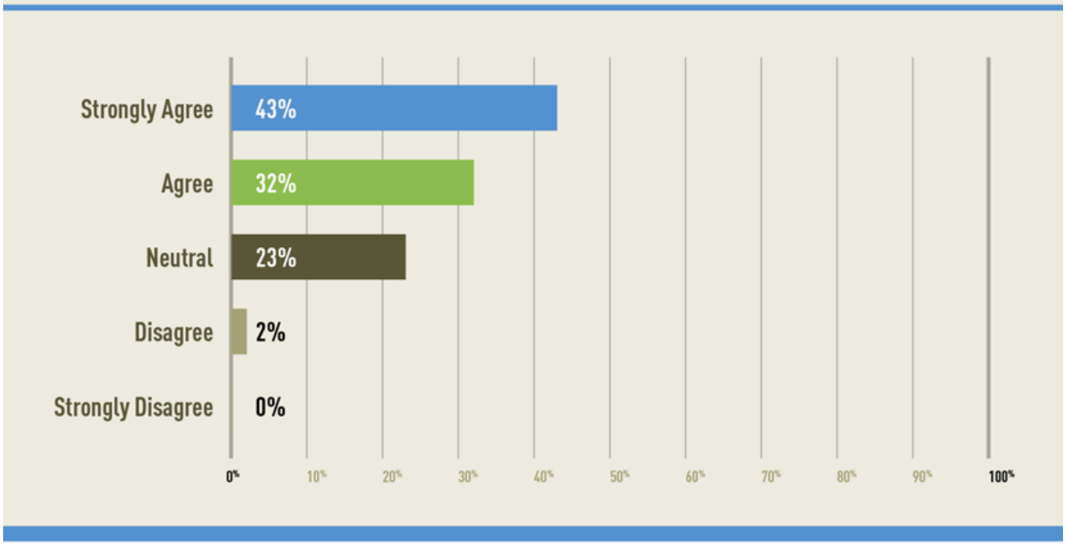


CHART 7.3

COVID-19 HAS ACCELERATED ADOPTION OF CLOUD AND MANAGED SERVICES



Responses to these questions did not raise surprises. Digitalisation of services is a direct response to the need to reduce physical contact either directly or via a transmission vehicle (such as physical cash, cheques or cards).

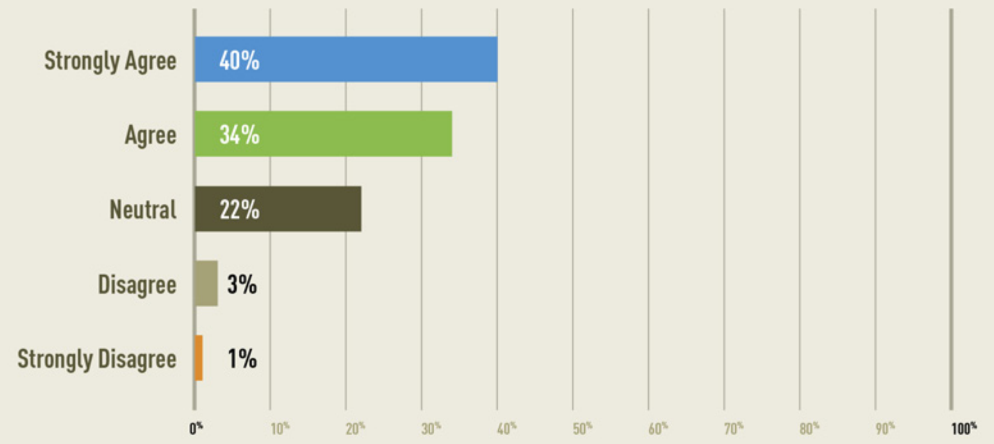
Payment infrastructures have seen a large increase in demand from direct deposit government schemes pushing funds directly to citizens and business accounts.

As financial institutions' employees were compelled to work away from their offices, the focus has shifted from the staffing of large in-house data centres, to shared infrastructure and Payments as a Service to ensure business continuity.

Finally, responses to the last question in the set again produced few surprises in demonstrating how COVID-19 has reinforced the importance of business continuity to financial institutions.

CHART 7.4

COVID-19 HAS BROUGHT BUSINESS CONTINUITY TO THE FOREFRONT



Financial institutions should look to specialist suppliers to ensure business continuity, whether this is at an infrastructure level with cloud services or at a business level where specialist financial suppliers can provide a complete Payments as a Service solution.

07
CONCLUSION

While modernisation projects are well underway, primarily focusing on instant payments, ISO 20022 migration, and digitalisation, financial institutions understand the potential for overlay services to provide differentiated and competitive services, but lack certainty on how to achieve this.

Customers and businesses expect convenience and speed in all of their interactions, operating when and where needed. This includes their payment needs. Financial institutions are taking the customer experience as a core driver for their digitalisation approach, providing intuitive and diverse offerings rather than focusing on financial products. Corporate treasurers have advanced real time cash and liquidity tools fed by the analysis of data rich message flows and the visibility now available from modern payment rails.

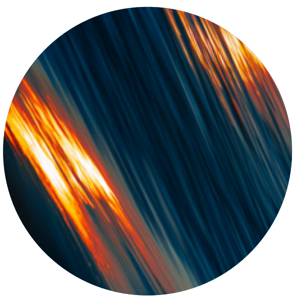
Amid the drive to provide a better customer experience, banks are keenly aware of the potential threats posed by large, digital first, data driven technology companies that have a proven track record of being able to exploit their wider ecosystem to provide innovative experiences and have already built vast financial networks.

Payment users now expect an always-available experience from their financial institution, to be able to send and receive payments anytime, anywhere in a safe and secure way. To achieve this, financial institutions need to focus on simplifying their platforms and standardising processes, and on how they can monetise the behavioural patterns available to them from analysis of the data they and their users generate across all of their interactions.

While COVID-19 has shown how resilient payment systems are and how quickly users of these systems are willing to change their interaction methods, it has also highlighted how wide the gap is between those who are included in these digital ecosystems and those that are not and the need to take action to reduce this gap.

Financial institutions recognise that payments are only part of the value that they offer to their customers and are evaluating how to deliver the complete value package through the use of key partners, whether to outsource IT infrastructures, use third parties to manage their services or to partners to support their entire payments capability. This approach allows the financial institution to focus on their core expertise and ensure that their customer experience comes first and is supported by safe, secure and cost effective services.

The future for financial institutions is a digital first ecosystem, driven by data that consolidates, simplifies and secures payment flows, and puts the user experience at the centre. This allows a financial institution to drive value and remain relevant in a rapidly changing world.



08 SURVEY METHODOLOGY

Consistent with previous years, the survey was undertaken online during the summer of 2020, garnering responses from a range of senior staff at banks and financial institutions globally.

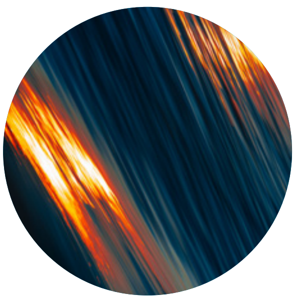
An analysis of nearly 250 survey responses received produces the following breakdown:

By region

Europe, UK and Nordics	**48%**
North America (US and Canada)	**23%**
Asia Pacific (APAC)	**17%**
Middle East and Africa	**12%**

By seniority

COO, CIO, CTO, CFO, EVP, SVP	**17%**
Senior Director, Director, VP	**32%**
Senior Manager	**39%**
Manager	**6%**
Team member	**6%**



09 ABOUT

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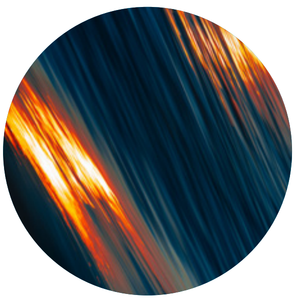

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