



TEMENOS
THE BANKING SOFTWARE COMPANY

The Magnificent Seven Themes of **Payments Modernization**



I Introduction

Driven by a wide range of pressing factors, some of which are regulatory, whilst others relate to advances required in payments business services and changing market demands, banks are highly motivated to modernize their payment capabilities.

But in doing so, and embarking on that journey of modernization, there are several key themes that each institution should focus upon in defining and executing that solution strategy.

These themes are key to a bank's future success. They underpin the functional and technical capabilities that are critical in supporting growth, innovation, compliance, and ultimately success in the digital payments era.

These Magnificent Seven themes are:

ISO 20022

Architecture/Technology

Universal & End-to-End coverage

Operational Optimization

Real Time

SaaS

Time to Market





Theme 1

ISO 20022

ISO 20022 is the messaging standard that the vast majority of new clearing mechanisms, both high and low value, both cross border and domestic, are based upon. Solutions must excel at managing the nuances of the standard, in all its uses and forms.



Extended data set

ISO 20022 introduces a larger data set containing more information, much of it structured, but also covering additional players in the payment value chain. That data requires active management, validation, enrichment, and processing.



Multiple variations

Each new clearing mechanism and market initiative that uses ISO 20022 can introduce a new set of validations and processing rules. Any new solution must have an active capability to manage such variations within a single platform.

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Theme 2 Architecture/ Technology

It may appear obvious to list architecture and technology as a key theme for any future-proofed solution but the choices you make are critical. Within architecture and technology, some sub-themes have real-world consequences on the ability of the solution to continually accommodate the changing, dynamic world of payments and thus the longevity and value to the organization.



Componentized

Ability to control the calling and linking of functions and configuring agile, responsive ecosystems.



Tooling

Empowering the organization to meet specific needs and address new demands.



Frameworks

Accelerating the delivery of new projects and managing change.



Cloud-native

Critical to be able to take advantage of cloud technologies and advances in processing capacity.



API First

Providing access to functions and data that seamlessly link external and internal services.



Microservices

Ability to reuse and scale distinct processes, deploying into container technologies to leverage new facilities.



Theme 3

Universal & End-to-End Coverage

Many banks rely on multiple systems to process different payment types and/or supporting different payment rails. This processing environment has usually evolved over the years as different initiatives were serviced by new programs, introducing new systems focused on specific processes or transaction flows. Such an environment with disparate systems generates added costs and risks. When modernizing your infrastructure, the objective has to be the creation of a single, universal hub, capable of consolidating all flows, from payment capture through to clearing and settlement.



Payment instruments

Is the ability to support all types of payment instruments in one solution. Be it credit transfers, debit orders, standing orders, bulk orders, even checks, all through one platform.



Schemes

There is no more separation of high and low value, domestic and cross border. The modern payment hub must be capable of supporting all schemes through one system, thus leveraging the investment in the platform to maximize the return on investment.



End-to-End

In supporting all schemes and instruments, the system must be capable of managing the transaction through the entire lifecycle, from initiation, through pre-processing, through orchestration, then execution and clearing, and finally settlement and reporting/notification.



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Theme 4 Operational Optimization

It may appear obvious to some, but ensuring the optimization of processing has to be placed at the heart of any payments modernization journey. As markets expand, and volumes increase, and customer demands become more sophisticated, each bank has to elevate its service levels to remain competitive and relevant. Optimization of operational services includes:



Straight-through Processing Rates (STP)

STP rates are directly linked to customer satisfaction and retention. What facilities are available to increase automation? Are transactions automatically enriched and repaired to avoid costly and sub-optimal manual exception processes? What are the STP rates that are achieved by the solution?



Dashboards/ monitoring

Dynamic, real-time dashboards must be available to track and monitor flows and highlight risks. Be it processing bottlenecks, or cut-off time limitations, or funds thresholds and limits being breached. This information and its automated tracking are connected directly to the efficiency of the solution and how it maximizes value for the organization.



Customer SLAs

Automated service level tracking is a mandatory element in optimizing the operations. These days, a bank must deliver against its service commitments to its customers as it seeks to retain and maintain a profitable relationship.





Theme 5

Real Time

Coupled with ISO 20022, Real-time or Instant payment schemes create a range of pervasive challenges in payment processing that must be addressed through a program of modernization. Real-time payment services have become the backbone of the digital payments age driven as they are by e-commerce and a market that demands instant gratification and value. Once experienced, it is difficult for any payment user, be it a consumer or a business, to revert to traditional, conventional payment value cycles. Consequently, the genie is out of the bottle and real-time will continue to grow and continue to replace existing cycles until it becomes the dominating, standard payment clearing method around the world. But it demands a great deal from the processing infrastructure.



24x7

Real-Time payments markets run 24x7. That means connecting to and servicing account postings 24x7 and supporting back offices' that may go off-line regularly or intermittently.



Performance

It seems very obvious, but nevertheless it must be highlighted as a fundamental of delivering a viable, credible platform for real time payments. The system needs to support time critical performance cycles, end to end. That usually means scalability, low latency integration, and optimization of services.



Service Definition

Each real-time scheme around the world can require various and different service levels, be it processing end to end in 2-3 seconds or sometimes shorter or longer. Other aspects of the process, can vary such as the type of payments covered and the maximum values. Any system must cope with both the definition and management of these variations, including supporting different schemes in a single instance of the system.



Automation

In a real-time world, straight-through processing rates must be maximized. Exceptions must be handled automatically through pre-set rules, and validations must be applied or offset depending on market and processing needs. Those systems that can actively increase STP rates and improve throughput are best placed to deliver value in the real-time/ Instant payment world.



Theme 6

SaaS

The emergence of cloud deployment as a viable option for banks, and now, more importantly, SaaS as an offering, creates a major step forward in a very positive direction. Not only does it lead to significant reductions in costs, but it also removes some key headaches and risks for any bank. The level of benefits derived from SaaS will vary depending on the service provision in question, nonetheless, it must be viewed as an important element in defining the payment modernization journey for any bank. How and where an organization takes the plunge is also subject to regulatory approval in the specific jurisdiction in question. Still, but more and more markets are supporting the approach, issuing relevant guidelines to enable banks to take advantage of this lower cost service offering.



Deployment Options

A key aspect of creating the strategy and choosing the cloud journey is the ability of the solution and the provider to support multi-cloud deployments. Regulators have recognized the risk of cloud concentration for business-critical processes such as payments and thus look for SaaS offerings that support distributed, active-active processing across multiple cloud providers.



Security

Data and system security are vital aspects of any SaaS service. There are huge pressures placed on the strength of the network protection provided by the service provider where a constant updating and monitoring of the integrity of the environment is mandatory.



Service Levels

In payments, in the digital age, there is very little room for downtime and the service levels, sometimes defined by the payments market itself, are stricter than other aspects of financial transaction processing. The time to recover from outages and the timed data losses are usually more onerous than standard banking commitments. Providers must commit to these levels of service.





Theme 7

Time to Market

The saying tells us that the early bird catches the worm, and this is a very apt analogy when applied to the modern, digital payments market where innovation and first mover status can be the key to success. How quickly can you launch and roll out new products? How easy is it to meet your customers and your market's demands? Such capabilities should be front and center when it comes to modernizing your payments environment.



Speed, Acceleration

Time is money and the quicker new products can be defined, tested, and introduced to the market the quicker revenues can be generated and accrued.



Agility

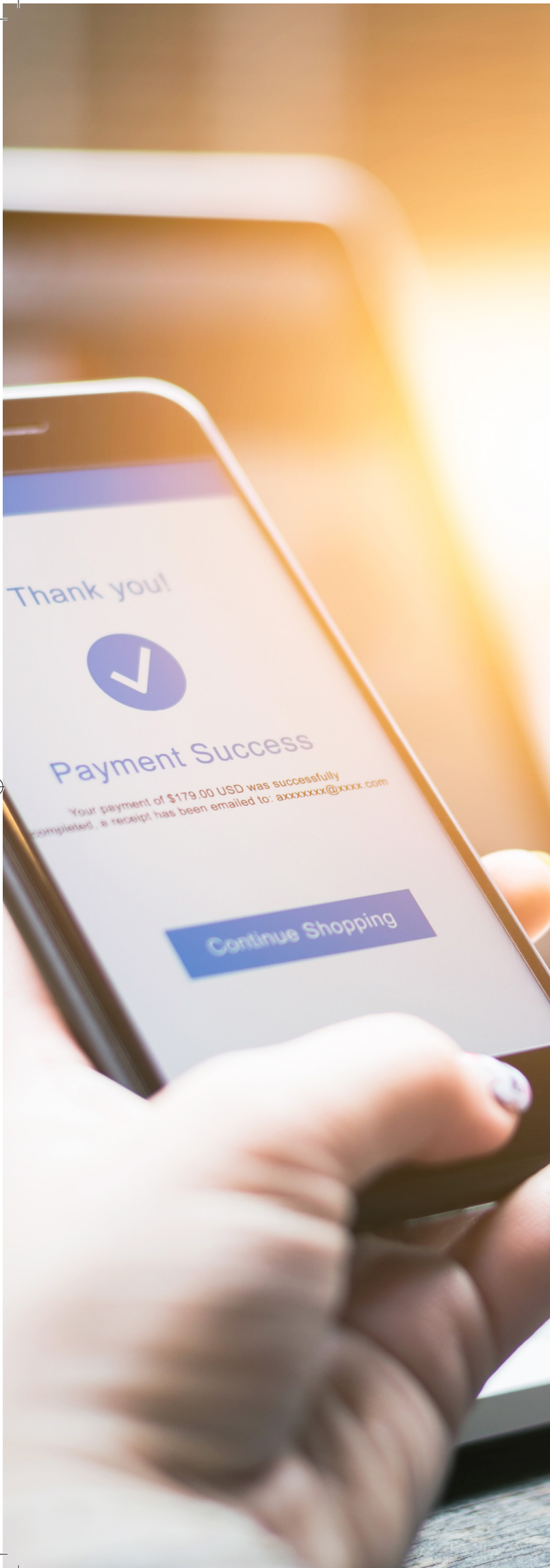
What can be changed and shaped into the products and services required. Agile environments score higher in their ability to lower the Total Cost of Ownership as they can be leveraged to accommodate ever-changing market demands.



Empowerment

No organization wants to be a hostage to the fortune of their vendor. When your business demands the creation of a new product offering it is important to at least have the option to create the new product using your own organization's skills and resources rather than waiting for the vendor or service provider to act on your behalf (at a price). Better to be empowered to address your own needs. This requires the appropriate tooling and capabilities within the solution as well as the availability of trained resources in-house. Payments Modernization should empower organizations to address their key challenges including accelerated time to market.





Conclusion

It is relatively easy to identify a range of functional and technical capabilities that are required to address the ever-expanding demands of the modern digital payments era. However, focusing down to create a short-list of the 7 key capabilities or themes that should be driving solution strategies and selections is more difficult, but not impossible, task.

This document has taken on that difficult task and thus created a blueprint for the priorities that will drive next-generation payment operations and services during the 2020s.

Each theme listed above, when addressed successfully through a coherent, active delivery program, form the basis for long term strategic success in the digital payments business. These themes must be used to both inform and drive strategies for payments solution change, and ultimately to deliver ongoing and expanding payments business success.

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About Temenos

Temenos AG (SIX: TEMN) is the world's leader in banking software. Over 3,000 banks across the globe, including 41 of the top 50 banks, rely on Temenos to process both the daily transactions and client interactions of more than 500 million banking customers. Temenos offers cloud-native, cloud-agnostic and AI-driven front office, core banking, payments and fund administration software enabling banks to deliver frictionless, omnichannel customer experiences and gain operational excellence.

Temenos software is proven to enable its top-performing clients to achieve cost-income ratios of 26.8% half the industry average and returns on equity of 29%, three times the industry average. These clients also invest 51% of their IT budget on growth and innovation versus maintenance, which is double the industry average, proving the banks' IT investment is adding tangible value to their business.

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