

## REPORT



# How PSPs are navigating change in a challenging payments landscape

# Executive Summary

TAS Group recently conducted a survey, in partnership with Bobsguide, to learn how PSPs, including Credit Institutions and other Payment organisations around the world, are reacting to the changes and challenges in today's emerging payments landscape.

**This report reveals the findings and contains insights into global technology investment strategies, cloud adoption trends, the main challenges currently seen by the payments community and more.**

The survey took place against a backdrop of rapid digitalization within the payments industry. Fuelled by advancements in technology, extensive regulatory overhauls, and the introduction of ambitious initiatives, the digitalisation of payments touches every aspect of business life. This trend has been turbocharged by the pandemic.

Key global trends reflect the need for tighter integration and increased interoperability between systems and organisations, with infrastructures migrating towards real-time and cross-asset services and adoption of the ISO20022 messaging standard. Growth in digital payments, increasing competition and a desire for immediacy are all factors that continue to drive momentum, and that is unlikely to slow down soon.

Payment Service Providers (PSPs) are now facing some of the greatest challenges of the last decade in staying competitive and adapting to these changes.

Key challenges for businesses operating in the payments space today are: how to compete in the new **instant payments** scenario; how to successfully **migrate to new standards like ISO 20022**; and how to effectively manage and **optimise their liquidity**. These challenges are both separate and interlinked.

To support this important transition and ensure a successful evolutionary journey, PSPs are able to leverage several innovative technologies including adopting a cloud-based strategy.

The cloud seems to demonstrate a potential to deliver the greatest positive impact, providing an opportunity to dismiss legacy technology constraints within an unprecedented short timeframe and to fast-track evolution.

## Survey Objectives

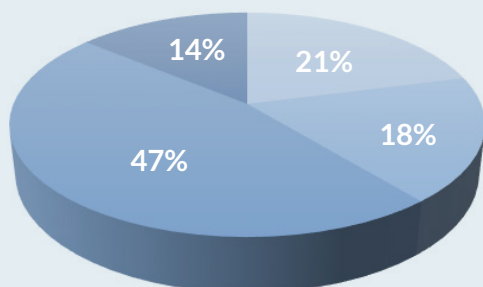
The goal of the survey was to:

1. Confirm the agenda for Instant Payments, ISO 20022 and Intraday Liquidity Management
2. Obtain insights into perceived support offered by current systems
3. Understand cloud adoption strategies and trends

## Respondents

The survey was open to PSPs, banks, credit institutions from around the world. Below is a breakdown of the responses received by business type and by geography.

### RESPONDENTS



**47%** Bank (credit institution) with more than \$50bn assets on balance sheet

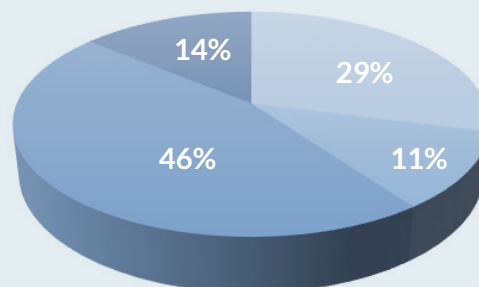
**14%** Bank (credit institution) with less than \$20bn assets on balance sheet

**21%** PSP (not credit institution)

**18%** Bank (credit institution) with \$20bn to \$50bn assets on balance sheet

The large majority of responding PSPs were banks, only 20% were not Credit Institutions.

### GEOGRAPHIES



**46%** Europe

**14%** Americas

**29%** Middle East & Africa

**11%** APAC

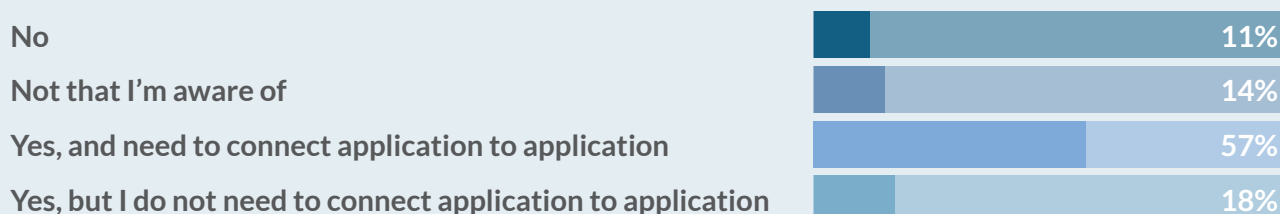
Nearly half of the respondents were European while Middle East and Africa were the second more represented geographies.

# Main Findings

## Agenda

61% of respondents confirmed that they are already participating in an Instant Payment scheme and only 20% do not expect to have adopted the “new normal” by the end of 2021. PSPs are working with different Instant ACHs, most often the local ACH in their country, although, as expected, EBA RT1 and ECB TIPS are more frequently adopted in European countries and allow a wider European reach.

### Are you involved in any major payments infrastructure migration to ISO 20022 in the next 3 years?



Unsurprisingly, 75% of respondents are planning a migration to ISO 20022 and many of them are expecting to work on their systems for this, particularly the larger banks. Over half (64%) of respondents, and all of those based in the Eurozone, feel positively about the ECB TIPS Interoperability initiative, expecting to realise real benefits in ACH interactions and through a further adoption of instant payments in Europe. For instance with this initiative, by November 2021\*:

- All PSPs which have adhered to the SCT Inst scheme and are reachable in TARGET2 will also become reachable in a TIPS central bank money liquidity account, either as a participant or as a reachable party\*
- All ACHs offering instant payment services will migrate their technical accounts from TARGET2 to TIPS\*

90% of respondents said they were planning to improve their Intraday Liquidity Management Systems to comply with regulations, provide better corporate services or reduce costs and risks. All non-bank PSP respondents said they were planning implementations or improvements, and 64% of respondents said that the pandemic has prompted new investments in liquidity systems, both on existing and new ones. Only EU respondents, from larger organisations in many cases, stated that they have not changed their focus on liquidity management in light of the pandemic.

\* Source: ECB Focus Session on Pan-European Reachability of Instant Payments in TIPS, 24/9/20

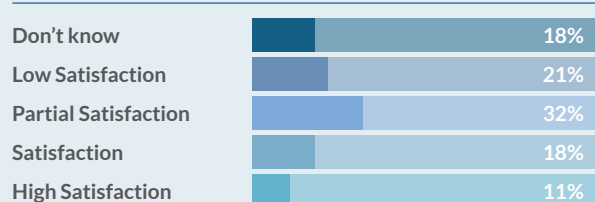
## Support from current systems

The survey asked how well the existing systems are supporting:

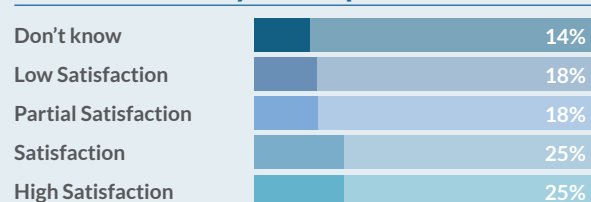
- Instant Payments
- ISO 20022 migrations
- Active intraday liquidity management
- Intraday liquidity stress testing

Below are the responses collected.

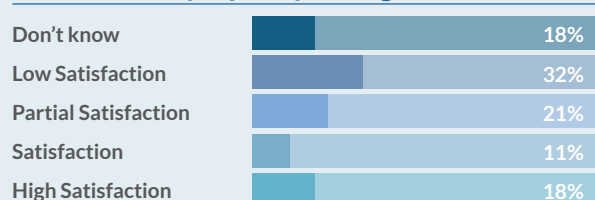
### Market infrastructure migrations to ISO 20022



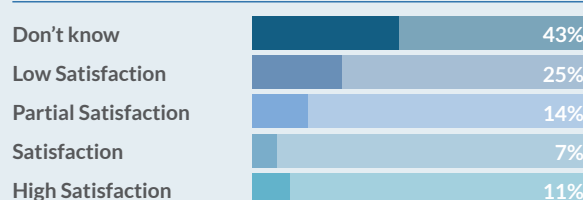
### Instant / Faster Payments operations



### Active intraday liquidity management



### BCBS 248 Intraday Liquidity Stress Testing



Instant Payments were perceived as the most effective systems currently in place, with 60% of the respondents saying they were satisfied or highly satisfied. This degree of satisfaction slightly increased for medium to large banks.

Conversely, the level of satisfaction decreased concerning systems supporting ISO 20022 migrations and liquidity management. Just one third of respondents said they were happy with their system's readiness for ISO 20022 and only 20% of European banks said they felt satisfied with the support they are receiving for the major ongoing RTGS migrations.

**The large majority of PSPs shows a common agenda for instant payments, ISO 20022 and liquidity management. Many of them seem not satisfied with the support from current systems and half of them is open to consider cloud adoption to tackle the issue.**

This perception is echoed where it comes to active intraday liquidity. Only 35% were positive regarding their current systems although higher levels of satisfaction were evident at medium to large banks with lower levels for small banks and non-bank PSPs.

Satisfaction decreases for **intraday liquidity stress testing**, for which we see the highest level of “don’t knows”, probably because this specific practice affects only Liquidity Risk owners within the organisation. Here we saw that **European players and bigger banks**, in particular, **claimed to be completely unsatisfied**.

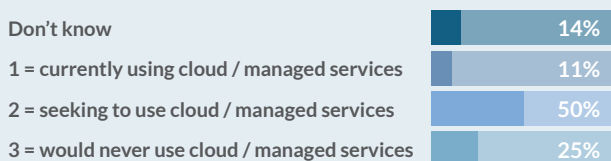
### Cloud adoption trends

The Survey asked if respondents were using cloud/managed services solutions or were at least open to adopting them for:

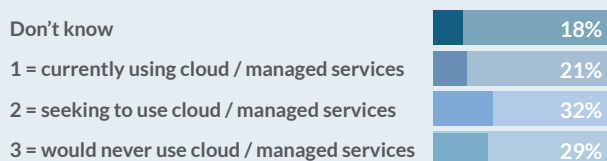
- Instant Payments
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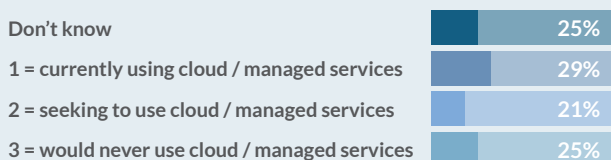
#### Instant / Faster Payments



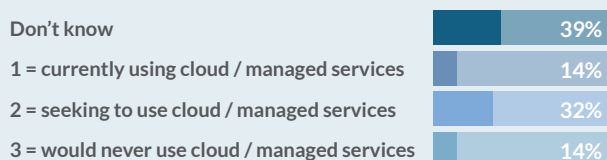
#### Market infrastructure migrations to ISO 20022



#### Active intraday liquidity management



#### BCBS 248 Intraday Liquidity Stress Testing



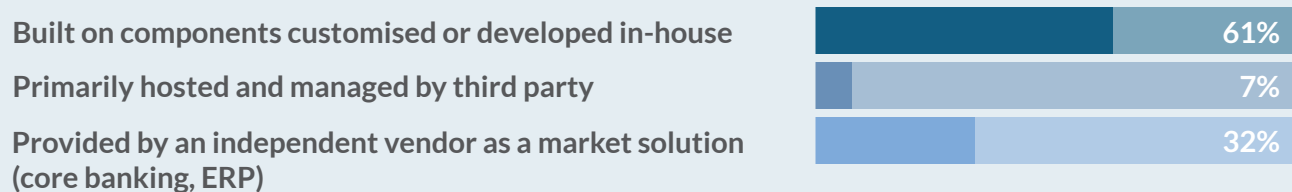
**Overall banks with more than 50 billion in total assets have more fragmented core systems and seem not to consider the cloud a way to overcome present constraints.**

In general a willingness to adopt cloud solutions seems to depend more on the size of the respondent's organisation than on the nature of the service. Interestingly, the respondents stating that they would never use cloud solutions were nearly always from banks with more than \$50 billion in assets. The type of service was pertinent with just 14% saying they would never adopt the cloud for stress testing solutions, while this increased to 25/29% for the other services.

One more question was asked to understand the core banking system used by respondents, to verify a link between a willingness to move to the cloud and the core banking system currently in place.

Core banking infrastructure can often be a barrier to technology innovation at financial institutions, particularly when resulting from a combination of different legacy systems and/or if highly customised. This scenario is particularly interesting, as while at first sight fragmented core banking tends to hamper evolution, for banks having such siloed systems in place, cloud adoption offers a more concrete way to overcome these existing constraints.

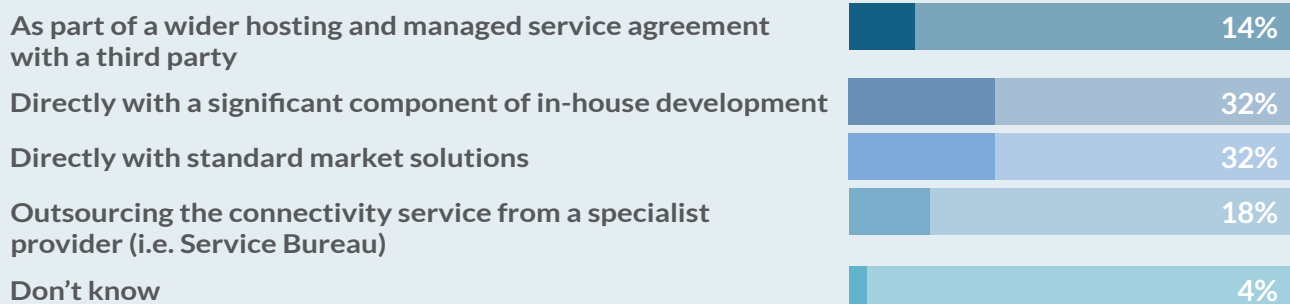
#### Core banking system



61% of respondents said they were using fragmented or in-house developed core banking systems, with the large majority of those representing banks with more than \$50 billion in assets.

If we compare these responses to those collected for cloud adoption we see that PSPs that are not Credit Institutions and smaller banks, tend to use market solutions or hosted solutions for core banking and are more open to adopting cloud services for instant payments, ISO 20022 migrations and Intraday Liquidity management. The survey results demonstrate that smaller PSPs seem more “agile” and ready to adopt market solutions for core banking and are open to cloud processing.

### Access to banking networks



Just one third of the respondents said that they accessed banking networks through third parties. This is consistent with today's low cloud adoption rate for instant payments and ISO 20022 migration and should possibly evolve in the framework of a wider adoption of managed services.



# Conclusions

The findings reveal that the majority of payment service providers share a similar agenda: instant payments development, ISO 20022 migration and liquidity optimisation. The pandemic has raised serious concerns around liquidity, particularly in PSPs that are not credit institutions and smaller banks.

Overall existing systems are failing to satisfy, with systems currently in place appearing to leave much room for improvement. Cloud solutions and managed services offer a highly viable option for improving these shortcomings for many PSPs. In short, the digital transformation journey concerning payments and liquidity is still in its early stages with many implementations still to be carried out.

Larger, more established banks are making limited use of standard solutions in the market, are taking less advantage of outsourced services and do not yet plan to deviate from this approach, despite the fact that they are unhappy with their existing systems, with a few exceptions for instant payments.

This appears to be a dangerous deadlock. Current market experience demonstrates that innovative players able to rethink their operations and already exploit the cloud and managed services are able to better overcome legacy constraints and better face the key items on their mid-term agenda. Very soon these same players will have to manage additional challenges, mainly driven by developments in open banking and the convergence of card- and account-based payments, driven by the need for a single and integrated customer experience.

# How TAS can help you

## ISO 20022 Migrations

TAS is helping customers with their ISO 20022 migrations, such as the Eurosystem T2/T2S Consolidation Project or the EBA EURO 1 migration, assisting them with:

- Requirements understanding and definition;
- Network Service Provider (SIA or SWIFT) and Business (i.e. ESMIG) integrations;
- Internal conversions between existing formats and ISO 20022 to assist Legacy System integrations;
- System testing and rollout through community testing and certifications.

## Instant Payments

TAS supports end-to-end, immediate payments processing for SEPA SCT Inst ACH, TIPS, Faster Payments in the UK and the local instant payments schemes in Serbia and Sri Lanka. We are helping our customers with the Eurosystem requirements for TIPS interoperability to meet the November 2021 deadline, and our processing capabilities include Request to Pay management and last mile connectivity.

## Liquidity Management

TAS's modular Liquidity Management System, Aquarius, helps banks in the digital transformation of their treasuries:

- Supporting the operational management of cash and liquid assets over different channels: large-value payment systems, instant payments, clearing and settlement systems, correspondent banks
- Allowing a real-time and forecast view of liquidity usage in Central and Commercial Bank Money, for any currency and across cash and liquid assets
- Providing BCBS 248 metrics in real-time, Intraday Liquidity Reporting and automated Intraday Liquidity Stress Testing

Aquarius is the perfect tool for overcoming data challenges and system fragmentation and for optimizing intraday liquidity buffers.

## Managed Services

With over 20 years' experience in managing our software on behalf of customers and 14 years of Certified SWIFT Service Bureau history, we deliver in SaaS, on private or public cloud, access to the new ISO 20022 Market Infrastructures (for example T2S, T2 and very soon ECMS), Instant Payments, Liquidity Management and Stress Testing. Through our cutting-edge solutions and expertise, we help customers reduce their time to market and transform fixed costs into variable ones.

# About TAS Group

TAS Group is a leading provider of payments software, delivering innovative solutions for cards and digital payments for over 35 years. With a global reach and offices in 9 countries spanning Europe, North and Latin America, we empower customers around the world to unlock the infinite potential of digital and mobile payments in the open and instant era and play an active role in the new ecosystem. Trusted by European Central Banks to manage millions of financial messages each day, our longstanding reputation in the market and unrivalled domain expertise has made us an internationally preferred partner for banks, PSPs and corporations.

**Get in touch to discover how we can help you too.**



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