



WHITEPAPER

Streamline Payments Modernization to embrace Instant Payments





About this **whitepaper**

This whitepaper discusses payments modernization and the adoption of instant payments in the banking industry, and sheds a light on:

- The challenges faced by banks in investing in digital transformation and the need for cost-effective, scalable, and flexible solutions that can provide clear visibility across their entire payments structure.
- The benefits of payments modernization, such as improved agility and responsiveness to future risks and regulations, accelerated payments transformation to the cloud, and remaining competitive while mitigating costs.

This whitepaper is recommended for Financial Service Providers (FSPs) seeking to modernize and transform their digital payment platforms, as well as anyone interested in the adoption of instant payments and the future of payments.



Foreword

Payments modernization has become more important and prevalent than ever before. The demand for faster, more secure, and more convenient payments options is on the increase. E-commerce, mobile payments, and other forms of digital transactions are on the rise. And consumers and businesses are seeking faster and more seamless ways to make and receive payments.

Additionally, traditional payments systems and infrastructure are becoming outdated, inefficient, and prone to security risks, leading to a greater need for modernization.

Moreover, governments and regulators are also recognizing the importance of modernizing payments systems to improve financial inclusion, promote competition, and support economic growth.

This makes payments modernization essential for meeting the evolving needs of consumers, businesses, and the broader economy in today's rapidly changing world.

To overcome these challenges, banks need a cost-effective, end-to-end, scalable, and flexible solution that can provide clear visibility across their entire payments structure.





What's driving the modernization of digital payments platforms?



The need for competitive advantage

Providing a more retail-style service and being able to support future innovation are crucial requirements to any financial service provider (FSP) seeking to secure market share in a highly competitive landscape. These initiatives require seamless and faster customer payment experience that go through the clearing and settlement process.



Digital imperatives

FSPs are under increasing pressure to modernize and transform their digital payments platforms as a way of extending their digital footprint.



Legacy challenges

Legacy infrastructure and a lack of internal resources can hold back investments in digital transformation, driving modernization efforts.



Security and regulatory requirements

Bringing data and applications infrastructure to the cloud in a secure and compliant manner, while new regulations are further accelerating digital transformation.



Commercial viability

Digital payments, whether they be domestic or cross-border, can be expensive and risky. Treasury teams have become heavily focused on reducing operational costs while remaining compliant and commercially viable.



Ecosystem building

Banks are looking to move away from relying on a single stack/vendor and require access to ecosystems to create their own.

Commercial clients increasingly demand market-leading payments solutions and products and are willing to switch or even bypass FSPs by engaging directly with fintech startups to attain them. All of this has meant greater competition and FSPs needing to seek go-to-market solutions they can bring to clients as quickly as possible. Underlying legacy infrastructure is one of the biggest hurdles in accomplishing this goal.¹





Benefits of payments modernization

1. Improved agility and responsiveness to future risk and regulation

Incoming regulations, such as Open Banking and P27 in the Nordics, are triggering change. Regulatory compliance is critical for FSPs to avoid significant costs of fines and reputational damage.



Mitigate risk: By improving agility, banks can better respond to regulatory changes and reduce the risk of non-compliance.



Delight customers: Banks must also respond quickly to changing customer needs and preferences. Slow solutions can be frustrating, leading customers to look for alternative providers. Agility is key to meeting customer needs and remaining competitive.



Adapt to change: As regulations change, banks need to adapt their payments platforms accordingly. For example, the move from SWIFT to ISO 20022 will require significant changes to many banks' payments systems. Agility will be crucial for banks to adapt to these changes and remain compliant.



Balance security needs with business requirements: And finally, with increased volumes of sophisticated fraud, banks need to implement robust preventative security measures. However, these measures can create friction and slow down real-time payments. Agility is key for banks to find the right balance between security and speed.

2. Accelerated payments transformation to the cloud

Neobanks and other fintech startups have captured significant market share by offering faster, more convenient, and cheaper payments solutions. Keeping up with these new entrants means matching their speed and agility. This is where adopting cloud-based solutions will be key.



Scale faster: Leveraging the cloud enables FSPs to scale operations quickly and innovate with new products and services. Flexible and easily scalable infrastructure allows banks to add – or remove – resources as needed, without having to invest in expensive hardware or software.



Improve visibility: Leveraging cloud-based payments solutions offers real-time visibility of liquidity positions, which increases the ability to make informed decisions and optimizes cash management strategies.



Support talent: Limited resources and headcount to manage payments operations remains a challenge for many FSPs. Moving to the cloud unlocks access to invaluable expertise delivered by their cloud providers and reduces reliance on internal resources.



Boost ROI: FSPs have limited budgets for one-off investments in payment infrastructure. Cloud-based payments solutions offer a cost-effective alternative to traditional payments systems, reducing the capital expenditure needed and improving ROI.



Mitigate legacy challenges: By moving to the cloud, FSPs can reduce their dependency on legacy systems and adopt more modern payments solutions that are less costly and easier to manage and maintain.



Lower cost to serve: FSPs need to keep transaction costs under control to be competitive. By leveraging cloud-based payment solutions, they can reduce transaction costs and significantly improve profitability.

Unlike several years ago, cloud technology has become normalized and is top of mind for most banks, with 91% of banks already completing a transition of payments processing to the cloud or reporting plans to do so. Much of this comes down to Payments-as-a-Service (PaaS) offerings that focus on moving away from owning to consuming the payments processing software and the underlying technology on which it is running. Many banks see PaaS offerings and other cloud-based payments solutions as a route to more efficient and cost-effective payments modernization.ⁱⁱ

3. Remain competitive while mitigating costs

The focus of any payments system is the customer. Modern payments systems allow for faster, more efficient, and cost-effective payments processing, greatly enhancing customer experience and satisfaction – and boosting competitiveness.



Traditional banks can deliver comparable services: Because neobanks and other new entrants typically have lower operational costs compared to traditional banks, modernizing payments systems can provide the means for these traditional banks to offer comparable, if not better, services, while still reducing costs.



Neobanks can scale: Neobanks, on the other hand, leverage modernized payments systems to balance technology and costs while scaling up operations with solutions that integrate well with their current ecosystems.

Neobanks also face pressures to modernize their payment systems. They need to be able to scale up and offer new services to their customers. Payments modernization is essential to help these FSPs future-proof systems to prepare for future factors such as Open Banking, while also providing scalable services to meet growth needs.



The instant payments play

Modernization offers innumerable benefits, but payments-specific modernization unlocks powerful capabilities enabled by instant payments. With the right support, this could serve as a powerful catalyst for business growth and innovation.

As businesses increasingly operate in a global, digital economy, the need for fast and reliable payments systems becomes more pressing. Instant payments provide a secure, real-time alternative to traditional payments methods. New additions to payments systems such as NPS for the UK market, RTP for the US market, and FedNow and NPP for the Australian market are driving instant payments uptake by providing customers with faster, more secure and convenient ways to make transactions. These systems are meeting the demands of consumers for fast and efficient payments methods and are helping to facilitate the increasingly global nature of commerce.

The rise of digital payments systems, such as PayPal and Venmo, are also driving demand for instant payments. If the business is not able to provide this service, there is a risk that customers will be lost to competitors who can. This is why instant payments have become such a key component of modernization efforts in the industry.

The benefits of instant payments go beyond satisfying customer demand.

The ability to receive payments instantly...



Finally, by automating many of the manual processes involved in traditional payments, instant payments reduce the need for manual intervention, leading to lower processing costs and faster settlement times.



Implementing a data-rich, always-on, real-time payments system can provide a foundation for banks and non-bank payments providers alike to improve service to their customers and develop new products.ⁱⁱⁱ





More investment; more modern technology

Instant payments represent an important step forward in the modernization of the payments industry. However, they require significant investment in modern technology and infrastructure – including upgrading legacy systems or implementing cloud solutions.

Modern technologies like cloud-based solutions make it easier than ever for businesses to embrace instant payments and stay ahead of the competition. Cloud-based solutions can provide greater scalability, resilience, and cost-effectiveness than traditional on-premises systems. They also enable businesses to take advantage of pay-as-you-go pricing models, allowing them to scale up or down as needed.

As real-time payments systems enable the creation of new value-added services, the mere exchange of value will no longer be seen as a product.^{iv}



Streamline modernization with Finastra and LTIMindtree

Planning for payments modernization and creating commercially viable solutions that can integrate with open APIs, operate with good data flow, and still be compliant can be challenging for many FSPs. That's why Finastra and LTIMindtree have come together to help FSPs along their journey towards embracing instant payments and modern payments methods.

Finastra's leading payments platform combined with LTIMindtree's expertise in regulatory alignment and system integration help FSPs meet regulatory requirements, confidently accelerate payments transformation to the cloud, mitigate operational costs, and gain a competitive advantage.

Given the stakes, required investment, and time, there are significant risks associated with modernizing payments products and solutions. Cost hurdles and technical complexities, among other challenges, can hinder modernization efforts, furthering risk of disintermediation or losing clients to other FSPs. Payments solutions vendors can provide experience and the technical expertise necessary to streamline the process and ensure continued investment. By adopting vendors' recommended best practice workflows and business rules, FSPs can significantly improve their operational efficiency and reduce complexities. As a result, vendor partnerships play a critical role in the payments modernization landscape.^v



Cost-effective, end-to-end solutions from Finastra and Managed Service Support from LTIMindtree

- The Finastra Payments-to-Go is a Software-as-a-Service (SaaS)-based platform that provides an end-to-end, scalable managed service. Finastra's leading payments platform offers customers confidence that regulatory requirements will be met, with an evergreen solution that is always current, reducing the risk of costly fines or penalties.
- Finastra's APIs and open architecture, combined with LTIMindtree's expertise in regulatory alignment and system integration, mean that banks can integrate with current and future platform developments.
- LTIMindtree brings regulatory and cultural alignment and an understanding of financial services to help banks meet global and local regulatory requirements. LTIMindtree's cloud-agnostic solution (AWS, Azure, Google) provides customers with access to the right solution for their needs, along with expertise in cloud-hosting services and platform security.
- LTIMindtree's Managed Services model provides end-to-end testing capabilities (functional and non-functional), skilled resources, and eases the pressure on internal teams freeing them to focus on other strategic imperatives.
- LTIMindtree's Open Banking and PSD2 accelerator reduces core implementation time significantly, enabling faster adoption of compliance and business benefits.



Conclusion

There is no doubt that banks need to improve their agility and ability to respond to future risk and regulation to remain compliant, meet customer needs, adapt to regulatory changes, and prevent fraud. Modernizing payments systems is a critical step.

Finastra and LTIMindtree's joint offering continues to assist banks along this journey, helping to control costs and gain a competitive advantage by diverting some operational cost savings into product or service innovations. Together, they improve customer experience and accelerate innovation, enabling FSPs to swiftly bring new products and services to the market.

Find out how Finastra and LTIMindtree can help you to Streamline Payments Modernization to embrace Instant Payments.

Contact us at – info@ltimindtree.com



ⁱ <https://www.finastra.com/viewpoints/articles/six-trends-impacting-payments-modernization-2023>

ⁱⁱ <https://www.finastra.com/viewpoints/articles/six-trends-impacting-payments-modernization-2023>

ⁱⁱⁱ <https://www.paymentsjournal.com/how-real-time-payments-will-shake-up-the-payments-landscape/>

^{iv} <https://www.paymentsjournal.com/how-real-time-payments-will-shake-up-the-payments-landscape/>

^v <https://www.finastra.com/viewpoints/articles/six-trends-impacting-payments-modernization-2023>



About LTIMindtree

LTIMindtree is a global technology consulting and digital solutions company that enables enterprises across industries to reimagine business models, accelerate innovation, and maximize growth by harnessing digital technologies. As a digital transformation partner to more than 700+ clients, LTIMindtree brings extensive domain and technology expertise to help drive superior competitive differentiation, customer experiences, and business outcomes in a converging world. Powered by nearly 84,000+ talented and entrepreneurial professionals across more than 30 countries, LTIMindtree — a Larsen & Toubro Group company — combines the industry-acclaimed strengths of erstwhile Larsen and Toubro Infotech and Mindtree in solving the most complex business challenges and delivering transformation at scale. For more information, please visit www.ltimindtree.com.

About Finastra

Finastra is a global provider of financial software applications and marketplaces, and launched the leading open platform for innovation, FusionFabric.cloud, in 2017. It serves institutions of all sizes, providing award-winning software solutions and services across Lending, Payments, Treasury & Capital Markets and Universal Banking (Retail, Digital and Commercial Banking) for banks to support direct banking relationships and grow through indirect channels, such as embedded finance and Banking as a Service. Its pioneering approach and commitment to open finance and collaboration is why it is trusted by ~8,600 institutions, including 90 of the world's top 100 banks. For more information, please visit www.finastra.com