

ADDRESSING THE PAYMENT PROGRAM CHALLENGES



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Introduction

Payments system transformation can enhance bank and customer relationships, as well as create new revenue streams. In order to successfully execute a transformation program, banks need to plan for multi-year, iterative progression towards their desired payments operating model. Payments account for over 30% of a bank's revenue and a similar percentage of profits. Payment processing forms a significant component of any large or a medium bank's operations and payments-as-a-service is quickly gaining prominence among banks and its customers. This article highlights some of the key challenges faced by banks in implementing payment programs.

Need for Payments Transformation

Demanding customers, changing regulatory environment, competitive threats from non-banks and lack of differentiation are some of the challenges that banks are facing in the payments space today. These changes and challenges have resulted in more processing complexities and margin squeezes. In addition, banks may also face a number of other challenges in their current payment operations:



Payment responsibility and processing are distributed across various areas, internal or external to the bank.

Fragmented data and processes contribute to inefficiencies, risk and impact quality/customer experience.

Inefficient business unit processes. For example, limited straight through processing resulting in manual processes, increased risks and the potential for operator errors ultimately leading to increased costs.

Payments strategy is not documented, nor is there a documented business/technology architecture.

Payment system availability and system resiliency issues resulting in increased scrutiny from the central banks and regulatory bodies.



A successful payments transformation program will result in measurable benefits to the banks. Some of the benefits include:

- Reduced operational risk
- Reduced costs
- Ensuring accurate payments processing that may be tracked throughout its lifecycle
- Increased flexibility in the system to adapt to changing requirements
- Provide a basis for increased business functionality and competitiveness
- Increased success in winning mandates
- Improved liability gathering

Key challenges in a Payments Program

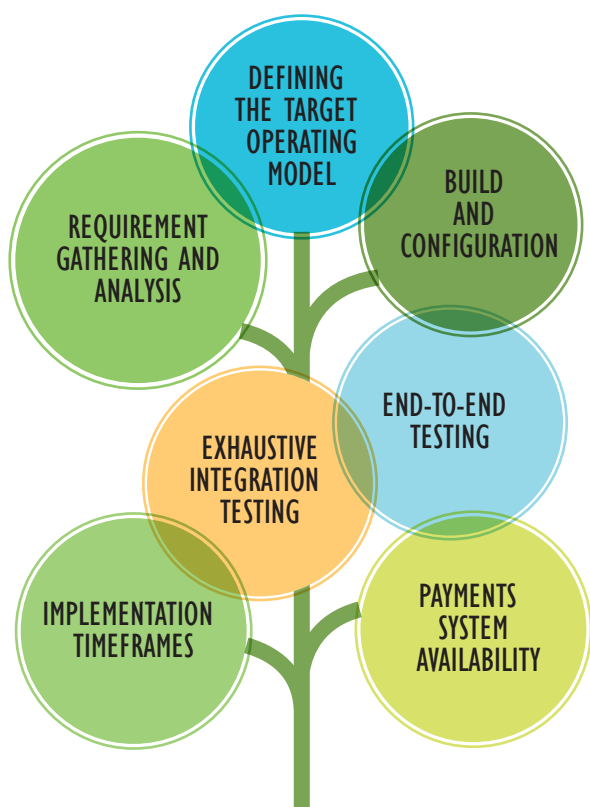
The vendor partner plays a key role in the success of the payments program. The partner can bring in its experience and industry best practices to overcome the common challenges in a payments transformation program. Here is an overview of the challenges at various stages of the program and suggested best practices to manage these challenges:

1. Defining the Target Operating Model

The target state is not just about change in IT systems, we expect to see a change in operations and people. A target operating model considering segments, channels, product, operations, and technology aspects will help deliver a road map for a roll out. The best practices would include:

- Review of operational structure and processes, parallel to implementation
- Standardization of processes

Some of the payments services developed by the bank can be extended as a service to other financial institutions (this is well established for Cards and SEPA). When creating a target operating model, such revenue generation opportunities need to be explored and designed for all aspects – Process, People and Technology.



2. Requirement Gathering and Analysis

Specifically in scheme related changes and compliance programs, the requirements are released over a period and clarifications come in tranches. Design and development of the solution cannot wait for the complete clarity to emerge due to time pressures. The best practices would include:

- Iterative/Agile based delivery for smaller chunks of high impact areas
- Both bank and vendor partners are required to ensure that

adequate time is allocated for overall analysis. It is also required that Senior Business Analysts from both the bank and the vendor are involved in this phase:

- Involvement of the bank and the partner in the complete implementation cycle and monitor end-to-end
- Payment scheme specific team readiness and expertise in the program phases
- Provide detailed design and solution for each and every interfaces

3. Build and Configuration

Time and again, we have witnessed banks developing silo payments applications and services (due to time pressures) and do not completely enforce standards and re-usability. Because of the multi-vendor scenario, there is a possibility of creating monolithic non-reusable code which is also not scalable. Some of the key aspects to consider here are:

- Define payments services catalogue and industrialization of services building and re-usability
- Predictability and re-usability of payments services by leveraging Service Oriented Architecture (SOA) principles
- Static data configuration and setup activities
- SOA governance model

4. Exhaustive Integration Testing

Payments transformation is typically an integration intensive activity where various back-end applications with disparate technology platforms and messaging standards are required to exchange data amongst themselves and to external systems.

One of the best practices is to involve testing early at the functional specification stage and reduce the defects and cycle times in testing agile sprints.

5. End-to-End Testing

While practicing agile based development, creating and establishing a test methodology and environment for quick testing cycles and E2E testing for releases is a key requirement. Also, there is a risk of testing overruns for scheme-related changes and issues over test data availability. Some key points to consider here are:

- Co-location and highly integrated testing with development cycle
- Various testing phases including system integration, User Acceptance Testing. This scope must include solutions, products from other vendors and customization to bank's existing systems
- Deploy test automation tools / regression test suites
- Testing the solution stack for compliance, throughput and quality
- Accelerators in Testing will help in reducing the testing turnaround time

6. Implementation Timeframes

This is the holy grail of any payments compliance / transformation program. The challenges here could be longer rollout time frames in the initial period, standardization of payments, need for product customization etc. Some of the industry best practices are listed below:

- GAP Workshops - User evaluation and review of system - this can be achieved through hands-on and experiential basis i.e. system functionality demonstrated to user which helps in minimizing perceptual or understanding gaps
- Incremental specific gap additions through multiple scheduled releases
- Minimal Release Content fundamental/ core-regional/ country-specific requirements addressed e.g. "Must-have Day 1"
- Exploit available functionality

- Early kickoff of System Set-up activity - Setup is intensive as most of it is completely rules-driven (this activity throws up different gaps)

- Partner/Perimeter systems engagement –the objective is to have a gradual/phased facilitation of change management

- Employ Change Request solution delivery approach – this is a proven and efficient means of delivery

7. Payments System Availability

Payments systems are highly mission-critical and demand high-availability. This is one of the most important aspects of defining a Payments infrastructure. Outages not only result in reputational damage, but also result in large compensation costs, regulator fines and customer-churn. Some key considerations here would be:

- Process, Application and Infrastructure resiliency assessment
- System availability checks and monitoring mechanism for key performance and health parameters
- Fully operational support environment and tools which monitor payments lifecycle as against specific application and / or infrastructure elements.

Conclusion

Large scale payments program implementation is now seen mainly in Europe followed by Asia Pacific and North America. The bank and the vendor partner need to jointly assess these challenges at the outset. All the relevant stakeholders need to be brought together at the right time to put actions in place to address these challenges. The success of the program will depend on how well these challenges have been identified and dealt with in a timely manner.

About the Author



Narayanan Venkateswaran - is the Practice Lead for Payments and Cards at Wipro Technologies. He has 17+ years of experience in Banking and Financial Services industry. He spent his initial 11 years of his career working with banks (Standard Chartered, American Express and Bank of Tokyo Mitsubishi) in the retail and wholesale banking with focus on payments, cash management, transaction banking and AML product implementations.

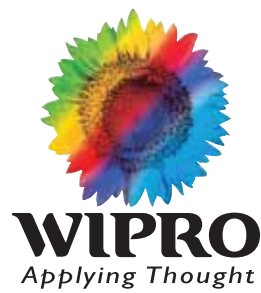
Over the last 6 years, he worked with Oracle Financial Services (OFSS) in consulting and product management functions focusing on payments. During the stint with Oracle, he was instrumental in enhancing Oracle's banking application to meet the recent developments in global payments industry, cash management and collections areas. He also helped many tier-I banks in defining their functional requirements for payments transformation programs and system integration programs for products like FundTech GPP, Dovetail etc.

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