

Payments: Card vs Mobile vs IoT



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The banking and payments ecosystem is evolving fast

Card payments are not as profitable as they once were, so issuers are seeking growth through new revenue streams.

Consumers expect new digital services to be integrated into their financial lives almost as soon as they enter the public consciousness.

Regulation of financial services is becoming more stringent, particularly in Europe, where the Second Payments Services Directive (PSD2) and, in particular, the Access to Accounts (X2A) mandate, will be enforced from September 2019.

No sooner have banks got to grips with their mobile offering than consumer and industrial IoT payment devices are hitting the market.

And, thanks to open banking, all of this is taking place in a more globalised and competitive market than ever before.

So, how can banks avoid falling behind, leading to customer attrition and declining revenues? It's all about the back-end.

According to recent research from Ovum, nearly [two-thirds of banks](#) believe their payments infrastructure will need a significant upgrade in the next three years as the back-office domain becomes a key part of their digital strategy.

The question issuers are wrestling with is how to best approach this massive undertaking.



Most banks still develop and manage their own infrastructure... this is creating pain points

Consumers' expectations are increasing. Should we develop value-added services ourselves? How much will that cost? Will we be able to hire enough developers with the right skills?

We were about to invest in new mobile infrastructure, but IoT payments are evolving quickly. How much will that new infrastructure cost? What about compatibility?

If we do develop our own value-added services, how can we guarantee scalability and ease of deployment across our customer base?

Card payments are not as profitable as they once were. How can we generate new revenue streams quickly?

Support for legacy systems and our coding languages is declining. How can we quickly and cost-effectively upgrade our infrastructure without disruption to our services?

Perhaps outsourcing our payments infrastructure is the answer.

Banks that outsource their infrastructure to software-only providers are struggling too

The tech is great, but...

We can't get new products to market as quickly as we would like.

We don't get enough bespoke support, especially when launching new services.

The provider has limited knowledge of our region's banking and payments ecosystem.

We're concerned about the level of support required to update our systems in line with evolving regulation.

Is infrastructure from a software-only provider worth the continued investment?



Their concerns are different, but there is a unifying factor:

banks are struggling with complexity and how to manage competing priorities.

Card infrastructure will be the backbone of mobile and IoT payments

All financial services and products are now connected to mobile devices in some way. A few examples:

- If open banking and account personalisation services aren't available on smartphones, then many consumers won't use them – so banks won't be able to leverage these services to differentiate themselves.
- If tokenisation doesn't protect transactions initiated from mobile devices, then an increasing amount of payment and account data will not be adequately protected.
- As mobile becomes the central banking and payments channel, if mobile financial services data isn't analysed, an issuer's picture of its customers' behaviours and needs will become increasingly vague over time.
- If payment-enabled devices like connected cars and smart fridges aren't supported in the back-end, an issuer offering may become obsolete once IoT payments become mainstream.

Virtual cards and the existing card infrastructure enable these services. This means that issuers need a back-end infrastructure that can flex to accommodate the future card experience. However, legacy systems are holding them back from responding to changing market conditions fast enough.

Banks need new, agile infrastructures that will enable them to close the gap with new digital challengers, meet customer expectations, generate new revenues – and prevent their gradual decline.

Customer centricity sits at the heart of digital financial services. That's why Nets' CMS stands for 'Consumer Management Services', not 'Card Management Systems', unlike most of our competitors. In an omnichannel world, card can't be standalone.



Consumer finance goes global

Open banking regulation and the growth in API-led financial services will have wide-ranging impacts on the financial ecosystem. One such impact will bring huge revenue opportunities to issuers: the breakdown of international barriers in the provision of financial services.

Banks have previously struggled to overcome cross-border differences in the structure and regulation of payments ecosystems. The variances between even neighbouring countries required so significant an investment that it was only feasible for the biggest players in the market.

Now, financial regulations such as PSD2 and the widespread use of interoperable payment APIs are making it simpler and more cost-effective to enter new markets. For most issuers, the natural first step will be consumer finance products.

This opportunity, like most, raises questions and challenges of its own. →

- **Cultural differences.** *Different countries approach banking and payments in their own ways. When considering new back-end systems, this level of complexity must be taken into account so as not to restrict future opportunities.*
- **System complexity.** *Issuers will need to counteract the complexity created by entering international markets by making sure their payments and consumer finance infrastructure is as streamlined as possible. The most effective way to do this is to ensure that your infrastructure can host credit cards, loan products, virtual cards and debit cards in one system. The best solutions of this kind will be flexible to accommodate the management of new open banking products, from true personal financial management to added-value services that haven't even been thought of yet.*

Key decisions for banks when developing a card, mobile and IoT payments infrastructure strategy

Is outsourcing right for my bank?

- Can your existing consumer management system support the growing and evolving mobile and IoT payments ecosystem?
- Do you have a large enough team of developers experienced in this area to build your own infrastructure and implement it with minimal disruption to end users?
- Will the significant capital expenditure be recouped quickly?
- Are you confident in your technical ability and capacity to quickly create an infrastructure that enables scalable, value-added financial services that can be accessed on any connected device?

If the answer to any of the above is no, outsourcing the development of infrastructure may be the best approach.

We're going to outsource our infrastructure upgrade. Should we go with a software-only or full-service provider?

- Do you need to launch new products quickly to ensure faster creation of new revenue streams?
- Would you benefit from bespoke technical support in the development of new and innovative services?
- Would you benefit from informed regional support and a collaborative development process that takes your bank's individual needs into account?
- Do you want to be able to guarantee your end users a stable infrastructure with high availability?

If the answer to any of the above is yes, then a software-only provider probably won't do.

We have identified a full-service CMS provider. What questions should we ask them?

- Do they have migration experience?
- Is the solution flexible enough to adapt to future consumer demands?
- How smooth is the onboarding process – how much disruption to our end users will there be? Can we migrate product by product instead of all at once, to mitigate possible risks?
- Can the solution be expanded to cover value-added services beyond traditional card-based services?

Nets has managed more than ten migrations from internal to outsourced infrastructures in the last five years.

From our team to yours, here are our top tips for a successful CMS implementation.

When initiating the project, remember to...

- 1. Define and align the most important business drivers.*
- 2. Ensure capabilities for organisational change.*
- 3. Evaluate what historical data is relevant to migrate.*
- 4. Secure the right resourcing and governance.*
- 5. Decide who has the final say on the scope.*

During the execution of the project, make sure that you and your team...

- 6. Secure delivery resources availability.*
- 7. Utilize the project governance for follow-up.*
- 8. Make final decisions on your go-live criteria.*
- 9. Apply existing smart testing methods.*



After the CMS has been implemented, don't forget to...

- 10. Assign ownership and follow through on benefit realization.*

Nets Consumer Management Services

By removing complexity, enabling cross-scheme interoperability and connecting issuers to their own existing network of acquirers, Nets enables issuers to drive down TCO, reduce time-to-revenue for new service propositions and refocus internal resources on innovation, product development and market differentiation, unburdened by the weight of regulatory compliance and 'making it all work together'.

This solution is flexible, covering a wide range of financial products. It enables banks to expand their geographic reach by using Nets' network, and the opportunity to scale their operations without needing to make large investments in staff and technology. In addition, Nets has capacity for continuous development and improvement that issuers simply cannot commit to, empowering them to 'punch above their weight'.

Implementing a pre-packaged integration solution removes complexities, raises business agility, and allows issuers to focus in on their core business objectives, customer relationships, and market positioning – establishing market differentiation and ensuring that their most important stakeholders, the end-users, are well served.

15 customer portfolios

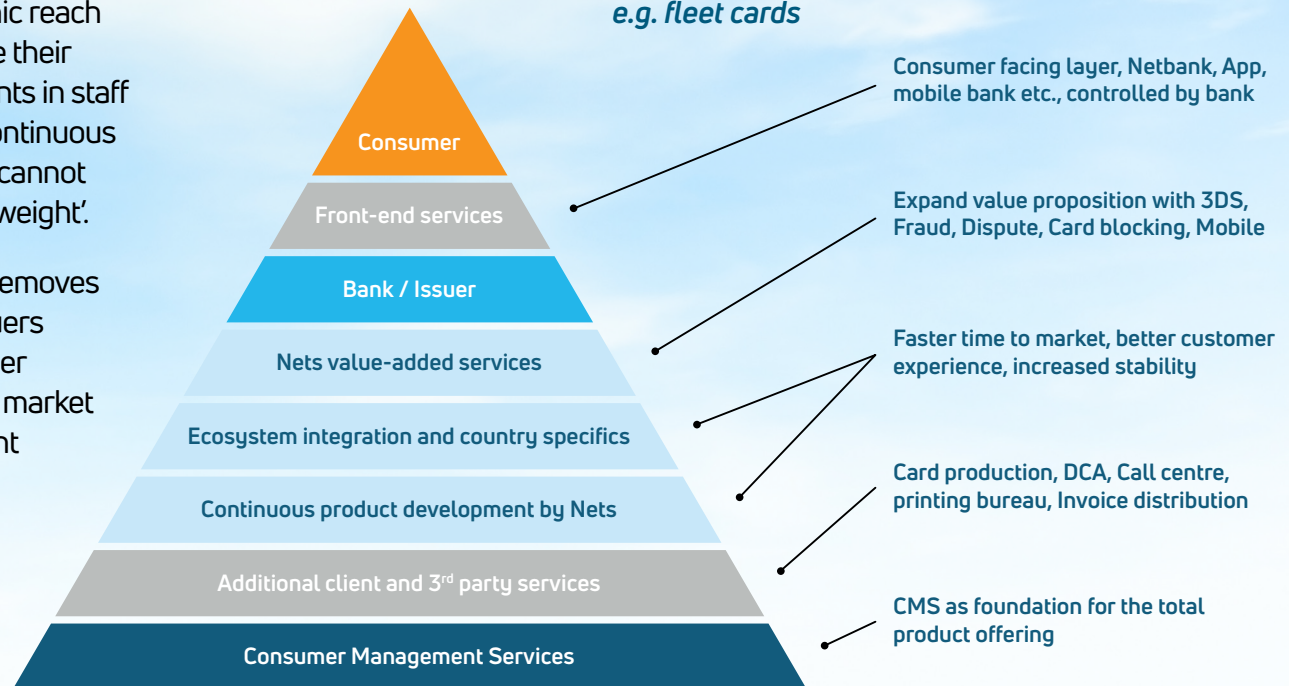
50 years' payments experience

Card and account products supported:

- Credit cards
- Debit cards
- Virtual cards & accounts
- Pre-paid cards
- Single-channel & disposable cards
- Corporate & business cards
- Special cards e.g. fleet cards

Sales and consumer finance products supported:

- Instalments
- Transaction conversion
- Pay with Invoice
- Consumer Loans
- Retail partner setup
- Partner mgmt. support



*Don't be held back
by complexity.*

*Let Nets take
the strain.*

Keen to learn more about our
Consumer Management Services?

Talk to us today or visit
www.nets.eu/solutions/cms

Nets Financial & Network Services provides tailored outsourced
payment solutions for banks across Europe.

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