

Managing the payments landscape

Standing still is not an option



The findings from a new PwC survey: “Standing still is not an option”

Fast, efficient and reliable payment systems underpin the global economy. Banks play a central role in these systems: their combined global annual revenues from payments are estimated to be \$480 billion. But banks' payment businesses are coming under increasing pressure from a variety of developments. Rising customer expectations are challenging banks to meet the need for resilient, secure 24/7 availability. Digital disruptors from inside and outside the industry are creating innovative new platforms and applications. And increasing regulation is adding operational complexity and cost.

To understand banks' perceptions of the fast evolving payments landscape, PwC carried out a payments industry survey. We asked leading players to identify the challenges and opportunities they face and sought to capture the various strategic responses they are developing to this dynamic market. While it's clear that no bank's strategy will be exactly the same as another's, there is broad consensus that their role is changing and standing still is not an option.

Resilience

The public and media reaction to high-profile failures underline the importance of offering reliable, trustworthy and easy payment systems. Regulators, too, are demanding evidence of resilience in IT systems responsible for processing payments. Our survey reflects the centrality of resilience, which half of the banks identify as their highest priority for IT investment over the next 3-5 years. Overall, the banks we surveyed have maintained high levels of availability, with all but one stating that they had less than one percent unplanned downtime in the prior 12 months.

A key trend that the survey identifies in this context is simplification and replacement of legacy payments infrastructure. This is, of course, a major step for banks to take. However, we found that those that have replaced their platform were not only achieving greater resilience, but are also more easily able to integrate product and service innovations as they develop and maintain the momentum behind the drive to customer-centricity.



‘Rising customer expectations are challenging banks to meet the need for resilient, secure 24/7 availability.’

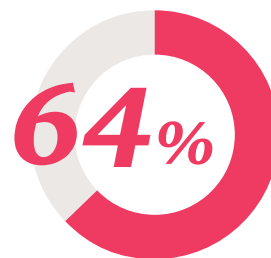
Innovation

Customers are at the heart of the innovation agenda that banks are pursuing. Pervasive digitalisation is dramatically reshaping customer expectations. In response, banks' innovation strategies are divided between those seeking opportunities to disrupt the market (25% of those surveyed), and the rest, fast followers, who prefer to emulate as quickly as possible what they see developing in the competitive landscape.

Those leading the innovation charge have dedicated budget for innovation.

They are interested not only in how to improve payments products and services themselves, but also in how to harness and monetise transaction and customer data. All banks, however, are alive to the impacts of new digital payment platforms and the possibilities of emerging technologies such as block chain – with the most innovative seeing them as a clear source of competitive advantage. But banks also identify threats from digital disruption, which include the potential to lose ownership of their valuable direct interface with the customer as other providers enter the market.

'The majority of banks (64%) operate with a 'matrix model' in which core global controls co-exist with local product or geography-based controls.'



Operations and Controls

Operating models are changing in line with new regulations. However, while we were able to identify a number of common characteristics, banks' operational evolutions are following different paths, driven both by current context and the relative importance of payments as a business. Fragmentation is a challenge for many. This can be as a result of lack of integration post-M&A and/or from the persistence of siloed operations supporting different business areas. Some banks that are making a more concerted payment play have moved to a service company model, with the payments function as a separate legal entity. And at the other end of the spectrum, banks that see payment as a non-core service are outsourcing payments to a third party provider.

While all banks surveyed are comfortable with their current controls environment, none operates with systems that are able to monitor payment processes end-to-end. Sanctions are the single most important area of controls, with banks reporting between 25% and 60% of their operations staff dedicated to sanctions processing. In addition, all banks surveyed said that they had centralised – or were in the process of centralising – their transaction screening/sanctions capability

in order to drive greater control. 94% claimed high levels of straight-through-processing and 87% operated with a super high value check.

Models of governance controls vary. And each has its strengths and weaknesses. The majority of banks (64%) operate with a 'matrix model' in which core global controls co-exist with local product or geography-based controls. This has the advantage of being simple to set up and enforce, but gives rise to complex accountability and could risk inconsistency between divisions. A centralised model, as in place at 29% of banks, creates clear visibility and consistent policy application, but is challenging to implement and maintain, relying on key staff in a central team. In contrast, local models (operated at 7% of banks surveyed) are relatively easy to implement, but are more likely to generate risks from gaps and inconsistencies across different locations.

Overall, our survey shows that banks are acutely aware of the changing nature of the payments markets and their roles within it. With many predicting accelerating change in the years to come, all need to ensure that they have both a clear strategy for the future and the capabilities to implement it.

PwC – how we can help

PwC offers a comprehensive range of payments services that can help clients define and manage risk, address their system needs today and their strategic evolution to meet the demands of the fast evolving payments market of the future.

Addressing complex and legacy infrastructure and systems

- IT resilience review for critical business services
- Work with clients to define their business risk appetite and link IT investments and provision of services accordingly
- Define and implement application rationalisation and simplification
- Design and implement a resilient IT organisation
- Define and manage risk frameworks, controls and IT remediation programmes

Payment processes and controls

- Payment controls assessment against the PwC ‘Gold Standard’
- Payments process review
- Support responses to regulatory pressures, payment issues or payments failures

Innovation and future planning

- Readiness for the future and approach to innovation, including the use of blockchain technology and distributed ledgers
- Organisational and operational structures to meet the emerging demands of both the market and regulators
- Technology resilience, stability and reliability
- Controls confidence, and controls performance assessment against peers and best practice
- Setting up your technology organisation to deliver resilience while leveraging Agile/Cloud/DevOps to deliver the innovation agenda

How PwC has helped clients

Our services support clients to achieve robust and resilient payment systems that can both address the challenges of today’s business environment and support their evolution in a fast-changing market. We have worked with boards to help define their business risk appetite, and created the IT resilience framework that links delivery and quality of services to that defined risk appetite.

We work with clients to define and implement risk frameworks, reviewing, defining and remediating organisational structures to support their ‘three lines of defence’ across the business. We have managed several large IT resilience reviews that have resulted in remediation programmes of more than £500 million. In addition, we have carried out extensive quality assurance and remediation programmes for payment controls and IT resilience.

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Investment in Innovation

Current market trends, changing strategy.



Operations & Controls

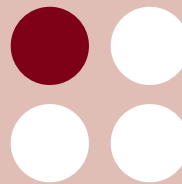
Safe and accurate processing, reduce incidents and near misses, regulatory resolvability and ring fencing.



Resilience

Technology failures, payment infrastructure stability and reliability.

Investment in Innovation



1/4

...banks have **separated** budgets to support payment innovation

Operations



None

No banks have systems that are able monitor their payment process end to end

Resilience



Half of all banks called out resilience as their highest priority for investment in payments over the next 3-5 years

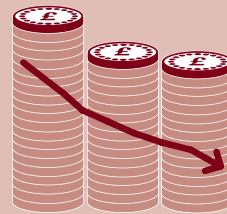
Market Disruption



Half

...of all banks said that alternative payment methods will disrupt the market in the next 3-5 years

Innovation



Value of data

...traditional banks are worried about losing access to useful data, others see getting access to and monetising data as key

Controls Investment



Sanctions – No 1

...priority for all banks, absorbing large budgets and staff to support

Operations

Investment
Banks



Challenger
Banks

Clearing
Banks

No one was certain about what the future role of banks would be in payments – but all accepted it was changing

Availability



$\geq 99\%$

...all banks bar 1 had less than 1% unplanned down time

Resilience



Automation/ Simplification

...as part of their resilience agenda is and will continue to be a big focus for the banks

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Design Services 29289 (10/15).