The race to digital:

Why banks must rationalise card platforms

tieto *EVRY*

The global pandemic has accelerated the rush to digital finance – and with it, a raft of new regulatory demands are arriving. As banks compete to deliver new digital-first products and a better customer experience, they must not ignore the need to update outdated or inefficient infrastructure. **Hans Sjölund,** *Head of Sales & Business Development, Card Services - TietoEVRY*, argues that using Software as a Service (SaaS) models to modernise payment card platforms represents one of the best opportunities to deliver flexible, efficient card services to market and respond to changing regulatory requirements.

An epochal shift

It's possible that retail banking is undergoing the greatest change ever seen in its 800-year history. New technologies such as smartphones and biometric security have led to massive increases in customer expectations, from opening accounts online to mobile banking and the ability to pay anywhere, at any time, for anything.

If we live in exciting times, then there are also significant challenges, from rocketing fraud to increasing regulation and compliance requirements. As significant as these problems are, banks face other difficulties in their day-to-day business, including the rising cost of offering card programs, especially credit cards. Major US banks recently reported[1] a 30% decrease in the profitability of their card schemes, citing the increased cost of incentives and reducing consumer usage as reasons for the decline.

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> Leading consulting firms estimate that between 25 and 35% of retail banks may not exist by 2030.

There's no doubt turbulent times lie ahead as banks adapt to the digital revolution – consultants such as Accenture estimate[2] that as many as one in four of Europe's banks may not exist by 2030. In response, banks are cutting their branch networks and moving to digital platforms. Whilst this makes sense, there are fundamental changes banks should be making to their infrastructure to reduce cost, improve the customer experience and adapt to changing regulatory requirements. As payment cards look set to retain their leadership position in the new economy, banks should consider rationalising their card platforms as a first step to creating a modern architecture that can be easily scaled to meet their changing needs.

1 See "*The Financial Times*": https://www.ft.com/content/fe591579-2202-45f1-8c83-a7e7dd1200c4
2 See Accenture, "From Branches to Experience Centres": https://www.accenture.com/t20181212t200148z__w___/us-en/_acnmedia/pdf-91/accenture-bank-branch-digital-disruption-from-transactions-to-conversations.pdf

Untangling legacy platforms

There are currently more than 14 billion payment cards worldwide, a number set to rise to 17 billion by 2022[3]. Given such vast numbers, it's not hard to imagine the many situations that have led to multiple card platforms being used by a single institution – whether that's retaining pre-existing systems after a merger; the use of different platforms by different divisions or geographical units, or the continuation of a successful card program on a legacy system that now needs upgrading. Further complicating the picture is the fact that many card platforms target individual markets or respond to the needs of a specific regulatory regime.

Quite apart from the cost dimension, the presence of numerous card platforms is inefficient and, above all, increases operational risk inside a bank, since each platform requires patching and upgrades to be compliant with new regulation. Retaining a wide range of card platforms represents a failure risk, especially for older systems.

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> **Apart from being expensive, multiple card platforms are inefficient and increase operational risk.**

By rationalising their card platforms, banks can reduce the cost of issuing cards and control fluctuations in revenue from card issuing as all activity passes through one platform. At the same time, banks can also reduce those costs associated with maintaining regulatory compliance across multiple platforms and introducing new technologies such as mobile devices. Products are delivered to market more rapidly, compliance is simplified and the up-front investment in developing a new card platform is reduced.

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> **As banks rush to "go digital", they should not ignore fundamental changes needed in their existing business.**

While almost all banks now recognise the need to digitise, to date this has taken far too long and has been undertaken piecemeal. Rationalising card platforms makes sense as part of the wider change to banking delivered in a fully digital environment; what's more, it helps free up capital and resources for innovation in other areas. As banks rush headlong to "go digital", they should not ignore the fundamental changes needed in their existing business.

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3   https://www.paymentscardsandmobile.com/14-billion-cards-worldwide/

Platform rationalisation: the options

Banks could consider writing their own code for a single platform, buying in a standard software solution or consuming standardised card services delivered in a mature SaaS model. While the in-house option will be tailored to the bank's needs, such development projects risk becoming expensive and prone to over-runs as different divisions and departments seek to influence the process. Bitbar estimates[4] that up to 80% of the cost of any in-house development comes from hiring and maintaining a team of software engineers.

Meanwhile, buying in an off-the-shelfsolution comes with its own difficulties, not least the time needed to integrate the software into their technology environment, including testing, integration and coordination of the new package with existing systems. Constantly deploying new software into a bank's ecosystem can be both expensive and time consuming.

Bank-led partnership via SaaS

The optimal means of rationalising card platforms is for a bank to embed and control a proven solution modified to suit their requirements. This delivery model , Software as a Service (SaaS), combines the advantages of in-house builds with the efficiency and lower cost of an off-the-shelf solution. SaaS-based delivery models also help banks improve their speed to market, and help them adapt rapidly to changing environments. By controlling their partnership with third-party providers, banks can minimise risk to their ongoing operations while realising cost savings and operational efficiency, something leading banks in the Nordic region are already doing to great effect.
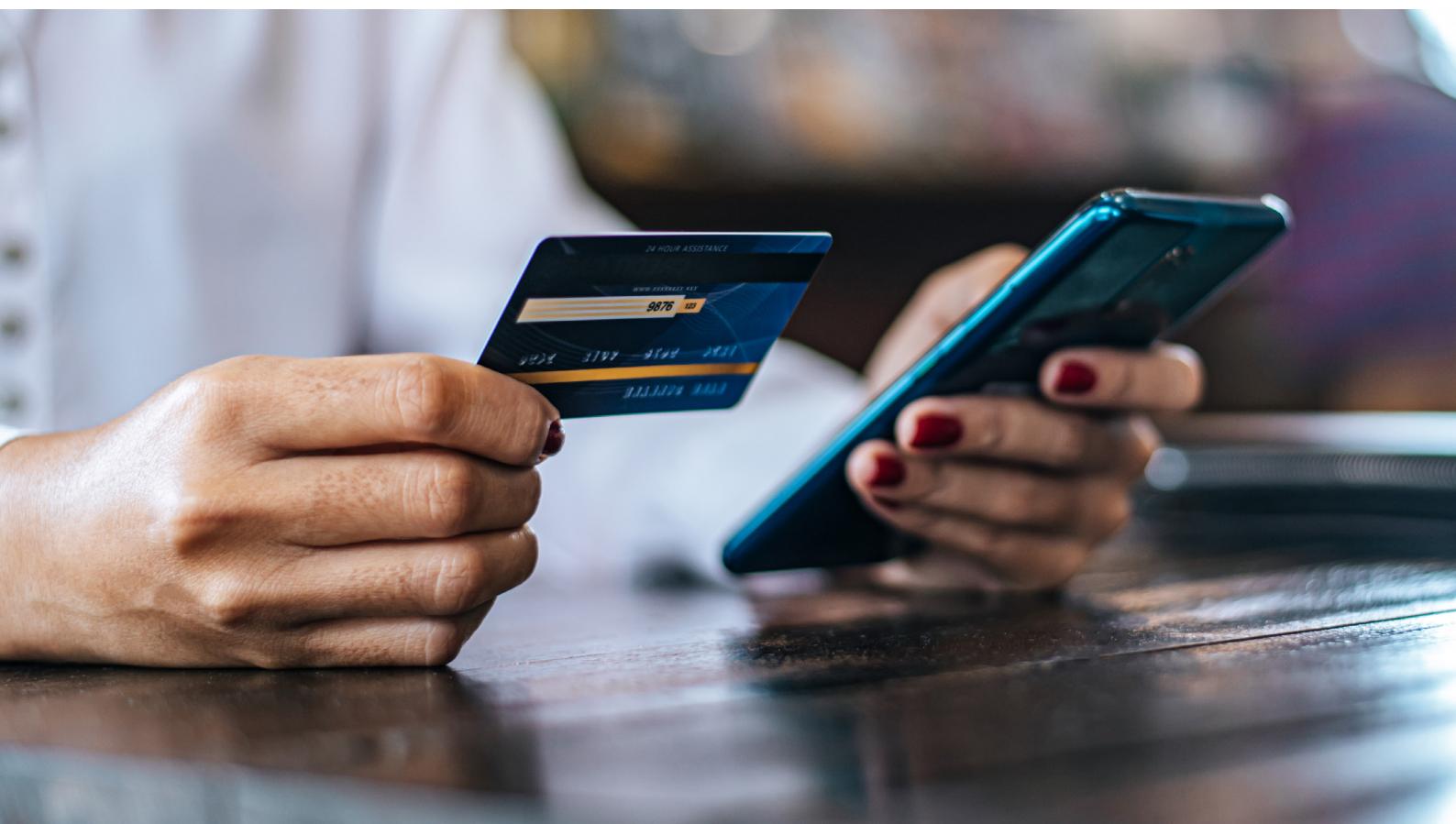
Action is essential

As this paper makes clear, a piecemeal approach to digitisation is not a winning strategy for retail banks currently facing significant competitive threats. Digital banks are predicted to treble in size by 2030[5], while 42% of Europe's smaller businesses are expressing dissatisfaction with their banking services[6]. Given such intense competition, banks should be focusing on innovating to improve the customer experience, rather than spending time continuously catching up with the latest compliance requirements and updating legacy platforms.

By working with external partners to deliver flexible SaaS-based card platforms, banks can set their own timetable, control costs and launch services without the delays and cost overruns that typically haunt custom in-house developments. In doing so, they will have also set their bank on the road to genuine digital transformation – something that's essential for survival in the decades ahead.

To find out more about rationalising card platforms rationalisation SaaS-based card services and the digital banking revolution, please visit:
https://www.tietoevry.com/en/industries/financial-services/card-services-and-processing/
or get in touch with TietoEVRY at **hans.sjolund@tietoevry.com**

5   See Insight Partners, "European Digital Banking": https://www.theinsightpartners.com/reports/europe-digital-banking-platform-market/
6   See Banking Circle, "Mind the Gap": https://thefintechtimes.com/banking-circle-study-of-online-sme-merchants-reveals-banking-gaps-that-payments-businesses-can-fill/

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