

A First Data White Paper

# Responding to a Changing Payments Landscape in Asia Pacific

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# Introduction

Technological shifts in the payments industry and rapidly evolving consumer expectations are combining to create both excitement and increased complexity for financial institutions (FIs) throughout Asia Pacific. These shifts are building on one another, upending old relationships and ways of doing business, and unleashing innovations that will continue to transform the payments industry for the foreseeable future.

As a result, several trends are surfacing:

- An increased focus by financial institutions on cost management across the entire payment chain, particularly in the support of low-value transactions
- The emergence of non-traditional payment channels driven by consumer technology
- Expectations of rapid implementations to meet evolving regulatory mandates
- Growing competition from non-financial institutions, eCommerce players, and TPP acquirers posing huge challenges to traditional FIs, taking away market share and customers

In response, financial institutions are finding it essential to understand consumers' changing payment behavior due to technology innovation, implement payment strategies that minimize risk, provide flexibility and scalability, and offer the greatest possible revenue generation opportunities, whether they are seeking to enter new geographic markets as an issuer or acquirer. Putting this into practice requires committing to three key imperatives:

1. Drive product innovation
2. Adopt flexible operating models
3. Reduce infrastructure costs

## #1 - Drive Product Innovation

Technology is enabling consumers to pay any way and anywhere they want, and it is changing how they make decisions. This evolution in consumer behavior and preferences means moving from fragmented processes toward seamless experiences, and from just transactions to experiences beyond the transaction. The model has shifted from top-down to bottom-up, and consumers are now in control of the conversation—a conversation that includes an expectation of higher levels of service and increased simplicity.

We're now undeniably in an era of Universal Commerce. It is commerce in which many activities are seamlessly integrated into one experience—shopping, payment, marketing, loyalty, money management, offline and online experiences.

With customers moving into the central role, service providers, financial institutions, and merchants must look carefully at the user context, determine what the customer is trying to accomplish, and build to that goal. That is the path to increased revenues, for all participants.

Mobile communications is increasing the interconnectedness of individuals, companies, and nations. While developed markets may undergo the Universal Commerce transformation first, developing markets will follow swiftly as the cost of smartphones continues to drop and mobile broadband access rises.

Given the rate and scale of these changes, the ability to create customer-focused solutions requires flexibility, processing scale, and a broad range of capabilities to meet the growing complexities of payment and transaction handling. Flexibility is especially important at the point of interaction, where the business meets the customer at what is becoming the new front door. How these experiences are designed and deployed will change—often swiftly.

In an era of Universal Commerce, value is generated at the intersection of payment capability, commerce acceleration, and improved user experience.

### Product Innovation in Action

In October 2013, First Data unveiled Clover™ Station—a reliable and easy to use new point-of-sale (POS) and business management solution for merchants. With the security and reliability of a terminal coupled with the flexibility of a cloud-based POS, Clover Station was designed to address all aspects of merchant-customer interaction from payment processing and analytics to marketing campaigns and loyalty management.

Evidence of this rapid change can be seen in the movement from standard POS devices to mobile payment acceptance applications. Businesses are propelling their customer-centric sales and service models forward with the help of mobile payment acceptance. For example, First Data's Pogo® Mobile Point of Sale enables mobile devices to easily accept credit and debit card payments, anywhere. The versatility of this advanced solution makes it appropriate for an enterprise merchant, a medium-sized retailer, a small business owner, or even a casual trader.

The reliability attributes of scale are required for any innovation, regardless of how many transactions are handled. Plus, access to a wide portfolio of back-end services provides an expanding range of tools to further cement the end customer relationship.

### Flexible Architecture Powers Innovation

New flexible architecture enables financial institutions to respond to the evolving consumer payment demand and reduce operating costs in the shift to eCommerce and mobile commerce. In addition, it allows banks to obtain data and targeting abilities to develop a more personalized and loyal consumer relationship.

As noted by Gartner (see diagram on the next page), moving to an open-source software system like Linux not only reduces total cost of ownership, but greatly increases an organization's flexibility and competitive edge.

### Costs Down, Competitive Edge Up Distributed vs. Mainframe Systems



*"While reducing costs remains a primary factor for adopting open-source software, businesses are increasingly seeing it as a way to gain a competitive advantage." — Gartner, Feb 2011 survey*

By adopting an open platform, banks of all sizes can grab growth opportunities they couldn't before. And FIs can use this approach to deploy processing capabilities into markets where government regulation now requires a local presence.

For example, First Data's VisionPLUS IP Inventory solution, containing globally developed VisionPLUS solutions that form part of First Data's intellectual property, provides a faster way to market with less resource incurred for new product development as assets of specifications or solutions can be leveraged. And, financial institutions benefit from First Data's continual investment feedback and refresh achieved with global license client base. The VisionPLUS IP Inventory solution is used by financial institutions when offering equal installments at the point of sale, the Islamic credit card, multi-wallet prepaid card, multi-scheme card, and Priority Pass credit card.

### #2 - Adopt Flexible Operating Models

First Data believes the rapid changes that are disrupting the banking and payments industries can be managed when flexible operating models are adopted, effectively reducing the risk associated with entering a new market. Flexible operating models protect against limiting technology, find partners to help in all stages of growth, and create the ability to go from global to local and vice versa. What is needed is a partner and technology that allow for scalability, flexibility and expertise in this area.

With server systems, open source and/or outsourced options, FIs now have the flexibility to quickly respond to local conditions. For example, if one market is exploding, while another is growing slower, processing resources can be shifted rapidly to accommodate the need. This is a level of flexibility small banks have never had before, and it is one that is significantly more cost-effective than dropping 'permanent' systems into markets that present an opportunity.

### Multiple Deployment Models Fit Diverse Business Needs

**Outsourced Model:** The processor performs full or partial functions of the end-to-end processing lifecycle, enabling the bank to quickly and cost-effectively ramp up its business with minimal investment and risk.

**Managed Service Model:** The bank licenses the software and the processor executes all or certain elements of the issuing process, allowing the bank to focus on its business and access processor expertise in platform functions to fast track innovation.

**Licensed Model:** The bank purchases a software license from a payments processor, which includes functionality and compliance upgrades, enabling the bank to manage the entire infrastructure in-house.

### Flexible Operating Models Open Up Growth Opportunities

- Open source systems and business process outsourcing adapt to growth
- Global capabilities support local models to address regulations
- Common platforms across markets deliver economies of scale and speed-to-market
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### Three Deployment Models and In-Country Hub



- Proven technology
- Single integrated solution
- Adds functionality on demand
- Expert local delivery teams
- In-country hub for local processing

### #3 - Reduce Infrastructure Costs

The rapid growth in emerging markets brings with it the necessity for quick response to consumer demands and evolving technology needs.

For established financial institutions with older legacy infrastructures, it may be difficult to react quickly to these market changes. For smaller financial institutions, the cost of building new infrastructure to meet these demands has historically been prohibitive. Roughly 40 percent of processing costs come from the mainframe infrastructure, which is cost-prohibitive for many Tier 2, 3 and 4 banks.

This is where FIs of all sizes can actually benefit from distributed systems. A smaller, more nimble bank can set up a distributed server infrastructure running on an open source system, which leverages widely-available and proven technology. Existing large centralized mainframe users have an additional option in expanding their footprint into new markets to meet regulatory and time-to-market requirements. In either case, right sizing and cost optimization is an opportunity to generate value to shareholders.

To better understand the cost savings of a distributed infrastructure, First Data conducted a TCO analysis based on customer and hardware provider input. The analysis revealed that distributed systems greatly lower the total cost of ownership for FIs with regional portfolios needing in-country deployments. We expect that, depending on their size, a client could potentially save tens of millions of dollars by utilizing distributed rather than mainframe systems. To do your own analysis, try the [TCO Estimator](#) which illustrates the potential cost savings inherent with distributed systems.

### Conclusion

To stay relevant in the current hyper-competitive and rapidly-changing payments landscape, financial institutions need to adopt flexible operating models that do not limit the ability to react quickly and cost-effectively to economic or regulatory changes. Savvy financial institutions will thrive by listening to their customers—using technology and in person—and anticipate their evolving expectations to craft seamlessly integrated online and offline experiences that are simple, efficient, and enjoyable. Innovation will play a crucial role and finding partners with the experience and resources to deliver relevant solutions quickly is essential. Lastly, uncovering opportunities to reduce costs and increase efficiencies, like rethinking existing practices and embracing a distributed systems infrastructure based on low-cost yet proven technology, will help financial institutions stay nimble and competitive.

### Addendum: First Data VisionPLUS Flex

To support a lower cost profile of both ownership and operation and at the same time balance the need for scalability and meeting market expectation, First Data worked with Hewlett Packard (HP) to create VisionPLUS Flex.

The joint initiative between First Data and Hewlett Packard provided the rigorous performance testing of VisionPLUS Flex in HP's Solution Center to right-size this Linux-based solution for our customers. The unique product positioning delivers three different business and deployment models all utilizing the same integrated solution—VisionPLUS Flex. These models provide choice and simplicity of install to financial institutions for their payment processing system.

#### Benefits of VisionPLUS Flex

- VisionPLUS Flex is an evolution of VisionPLUS, a proven, integrated solution
- Product functionality on-demand, including credit, debit, prepaid, multicurrency, loans, loyalty, and acquiring
- Three adaptable models to support unique budgets and growth plans
- In-country hub further reduces costs and provides maximum flexibility and speed to market

#### VisionPLUS Flex is a solution tied to your success.

First Data is rewarded only when your portfolio or business grows! The business model that is just as innovative as the technology itself – our billing is based on the size of your card portfolio, so our incentive is tied to your success. Think of our systems as both the technological means to open new markets and the revenue model to maximize the growth in each of them.

#### Why First Data?

- First Data is the world's largest payments provider and the largest in APAC, covering every stage of the value chain
- The role First Data plays at the centre of the payments ecosystem – before, during and after the transaction – provides us with deep industry knowledge
- More than 40 years in the payments industry, 30 years in APAC
- Over 4000 financial institution customers globally –in Asia our issuing software handles over 100 million cards for leading banks, including the top credit card issuers in Australia, Hong Kong, India, Singapore, and Thailand

#### First Data in Action

- First to launch a commercial card in APAC
- First international outsourced payment processor in China
- Top 10 Innovative Technology Companies Award
- Walmart: Best Service Provider and Most Innovative Payments Provider Award
- Best Mobile Solution Award for Google Wallet

**About the Author**

Marc Mathenz is senior vice president, head of First Data's Asia Pacific (APAC) region. In this role, Mathenz manages the business with operations in 10 countries across the Asia Pacific region.

Prior to joining First Data, Mathenz held a number of senior management positions in various organizations. He was a principal of Henderson Private Capital Ltd. and a management board member at GorillaPark Ltd., as well as the founder and managing director of GP Capital.

Mathenz holds a bachelor's degree from the Goizueta Business School at Emory University in Atlanta, GA. He received a master's degree in Business Administration from the London Business School and his Abitur from the Gymnasium am Neandertal in Germany.

# The Global Leader in Electronic Commerce

Around the world every day, First Data makes payment transactions secure, fast and easy for merchants, financial institutions and their customers. We leverage our unparalleled product portfolio and expertise to deliver processing solutions that drive customer revenue and profitability. Whether the payment is by debit or credit, gift card, check or mobile phone, online or at the point of sale, First Data helps you maximize value for your business.

**For more information, contact your First Data Representative or visit [firstdata.com](http://firstdata.com)**

