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beyond the transaction

First Data Market Insight

Outsourcing for Innovation

Regulatory and technological change in financial services is giving customers more choice in payment services than ever before

Financial institutions are facing unprecedented pressure to up their game and meet consumer demands. To truly enact this business transformation and introduce new services, such as mobile payments, banks must put a greater emphasis on technology partner relationships and the outsourcing of IT requirements.

This year is set to revolutionise consumer choice in British banking, with the Vickers account-switching legislation coming into effect in September, which will ensure consumers will be able to move their current account to a different provider within seven days. As a consequence of this faster account switching, banks will need to up their digital game to retain customers and make sure their service proposition remains attractive in an increasingly competitive market.

In recent years, banks have concentrated their current account offerings around support for debit and credit card payment transactions. With other payment forms now emerging, the most prevalent being the use of mobile technology at the point of sale (PoS), banks must update their core IT infrastructure to meet demand for these new services, while retaining traditional card support.

Additional pressure on banks' IT systems is coming from marketing departments looking to make the most of the benefits that new payment types, such as mobile, can bring – the era of big data and its value to a bank is truly upon us. The result is that chief information officers (CIOs) need to ensure the correct technology is in place to support banking transformation – and fast.

However, banks face a number of challenges in their quest to bring existing IT solutions into the 21st century. Organisations are concerned about how they can deliver the right level of service, while remaining cost-conscious. In a market where changes in pace are never-ending, it's essential that investments are made sensibly in technology which will stand the test of time.

This context leaves banks with the conundrum of replacing legacy payments technology when resources are tight and board sentiment is cautious.

An outsourcing provider not only meets regulatory changes, but also keeps on top of technological innovation to ensure the latest services are made available to customers. Indeed, outsourcing to a dedicated payments processing provider can future-proof banks against evolving technologies, such as mobile payments.

Calculating the true cost of running systems in-house can often be challenging for banks due to complex IT and organisational structures. In contrast, outsourcing provides transparency of the associated costs, which are often significantly less, as well as improved speed to market and product differentiation.

Recent news stories have shown that the risk of doing nothing is often higher than the operational risks associated with updating legacy systems. High-profile payments glitches experienced by some UK banks last year made it clear that there are more reputational risks associated with failure than ever before, as customers, rather than just IT departments, face the consequences of a reliance on legacy technology.

Ultimately, outsourcing the implementation and maintenance of new payment technologies enables banks to be more competitive. Not only can the institution differentiate its business through a more attractive offering, it can also concentrate its own internal resources on innovation, ensuring the business as a whole moves with the times.

When the Vickers account-switching legislation comes into effect and banks are under more pressure to retain customers, the losers will be those that failed to update their services to meet consumer needs. With challenger providers like Metro Bank, M&S and Tesco waiting in the wings, the time is now for banks to outsource for innovation.

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