



**Banking and Payments in 2022:
Digital transformation and
trends in financial technology**

Understanding the complexity

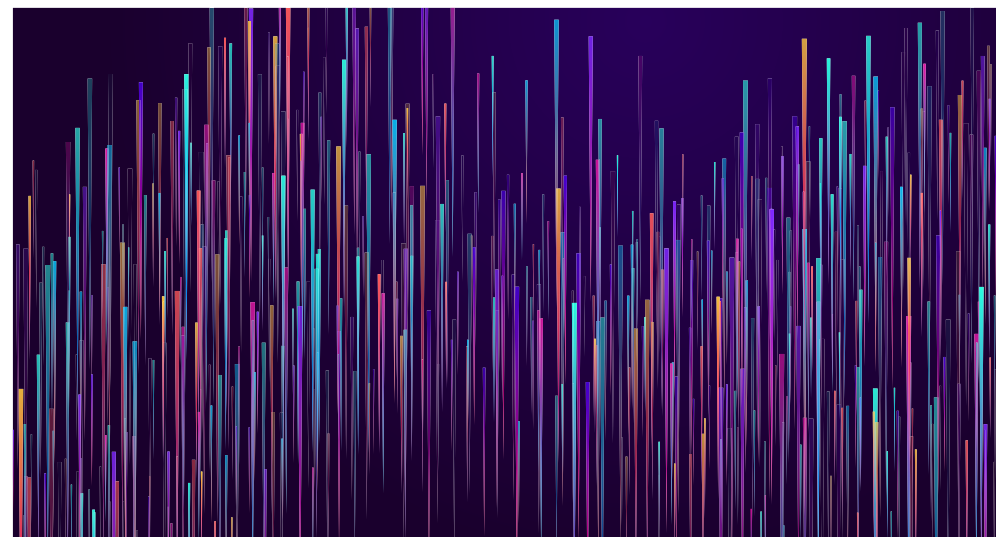
Before the emergence of Payment Service Providers (PSPs) in recent years, the retail finance and payments sectors were dominated by banks. But control of this space has shifted today, where automation has allowed many payments firms to cultivate superior data management and deliver the seamless experience customers now expect.

Armed with an innovative and data-centric approach, these upstart firms continue to offer genuine and immediate competition to traditional banks that also operate in the growing payments sector. Consequently, banks must develop more data-driven business models to keep pace with an increasingly competitive payments landscape – a highly complex challenge.

In particular, banks face challenges to improve the efficiency of cross-border payments, the end-to-end domestic and international payment experience, multi-payment integration and business-to-business (B2B) payments.

Added to these challenges is the growing volumes of digital payments and transactions that now characterise the global payments space, which creates direct pressure for many banks that still rely on legacy infrastructure, manual processes and disparate systems.

Banks that decline to modernise systems will fall behind more efficient competitors and leave themselves vulnerable to regulatory breaches. Recognising this, some of the world's largest banks are now acquiring PSPs to expand market share for payments processing.



But acquisition might not be an option for some, in which case the answer is to streamline, upgrade and/or replace outdated legacy infrastructure and processes. For many in the payments space, this is likely to involve investing in automated capabilities, Artificial Intelligence (AI), Machine Learning (ML) and Application Programming Interfaces (APIs).

By investing in emerging digital technologies, banks can address evolving customer preferences, mitigate risk and achieve regulatory compliance – essential elements for remaining competitive in the payments landscape of today.

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Methodology

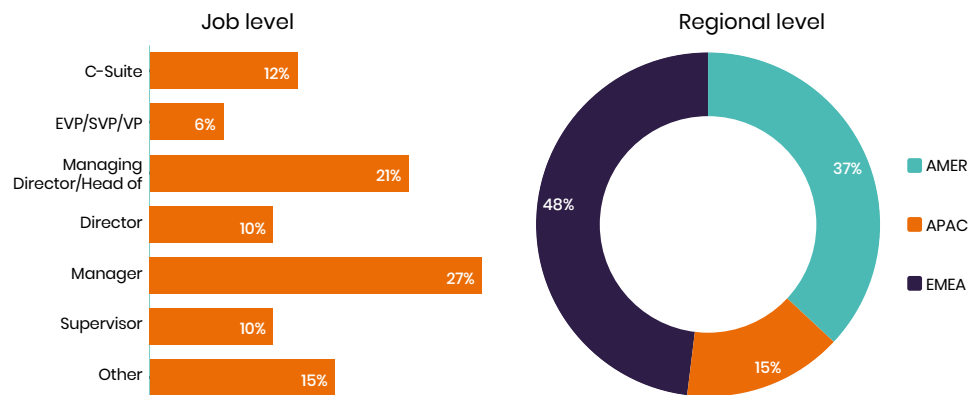
Banks will have a range of questions as they set out to transform their data management. To help firms understand and respond to these challenges, we partnered with FinTech Futures and Informa Engage to survey more than 50 senior professionals from the financial sector.

The report aims to better understand the complexities firms face when using automated technologies to handle payments data, remain compliant with evolving regulations and achieve growth plans as we head into 2022.

Although a variety of financial institutions took part in the survey, a large focus was placed on banks or credit unions (60%). A further 12% represent investment managers, 12% for lending and a combined 10% for trading and private equity.

Around 3 in 10 respondents hold Managing Director or Director level positions, and a combined 18% hold Vice President or C-Suite positions. Just under half of respondents are based in EMEA, while 37% are in AMER.

Which of the following best describes your job level and regional location?



Key findings: biggest pain points when receiving or delivering data

While automating data flow has been a priority for some years now, it is clear that many firms remain beset by inefficiencies.

In our research, firms highlighted legacy systems, poor interoperability, manual processes and regulatory requirements as the biggest impediments to automation. These pain points are likely interlinked, with legacy systems and poor interoperability exacerbating the complexities of manual processing.

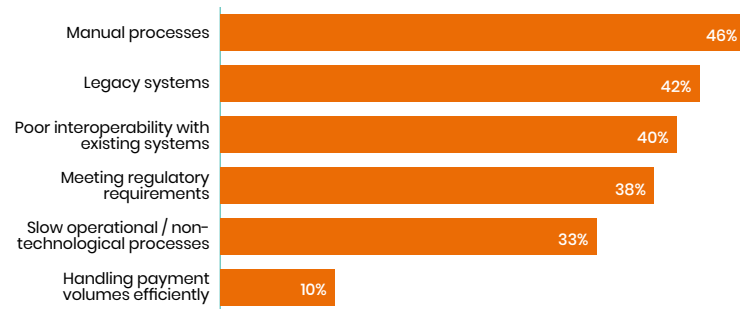
Heightened risk of error, regulatory breaches, and laborious and costly processes are all associated with manual processing.

The risks presented by manual intervention especially are by now well understood. Heightened risk of error, regulatory breaches and laborious and costly processes are all associated with manual processing.

Manual intervention also works against scalability, requiring additional headcount to manage growth. In addition, tasks such as preparing files for consumption, matching transactions and creating reports are deeply time-consuming. Perhaps worse, these inefficiencies often distract staff from more complex and value-added tasks.

It is unsurprising that regulation has emerged as another key pain point, considering that the quantity and complexity of regulatory reporting continues to increase year on year.

What are your biggest pain points when receiving or delivering data? (Select up to three.)



Indeed, some of the world’s largest banks have incurred fines in recent months, and firms will not need reminding that the costs of non-compliance are substantial both from a financial and reputational perspective.

While only 10% of respondents cited handling payment volumes as a key pain point, is it easy to imagine that this option would be more commonly referenced if the question referred to future volumes, which are poised for exponential growth.

The issues highlighted here put more emphasis on the importance of:

- Intelligent workflows to manage data flows and key activities
- A rules-based system to perform reconciliation matching and labelling exceptions
- Configurable user interfaces to remove dependencies on IT teams
- Exceptions and breaks management and detailed reporting

In-house solutions are the most common for data handling and payment operations

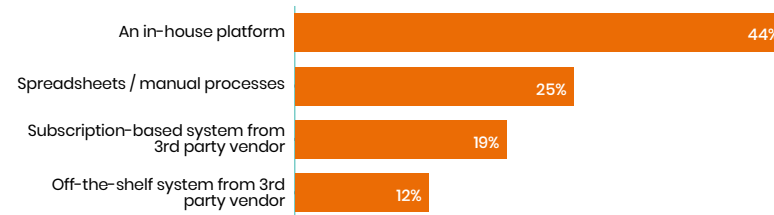
Respondents are most commonly using an in-house IT platform for data handling across their payment operations. In fact, there is a higher reliance on in-house systems in this sector than in many other areas of business.

One-quarter of respondents continue to rely on spreadsheets and/or manual processes, leaving around one-third using third-party systems, whether on a subscription basis or off-the-shelf.

Firms that take a mix of approaches are more likely to have overlapping databases, which in turn makes it difficult to gain an accurate, integrated view of business performance and operations to inform decision-making.

Yet again, the responses to this question point to wasted time and money. This will likely be for upgrades, with legwork needed to ensure that new systems are effectively integrated with existing IT infrastructure.

Which one payment option does your firm rely on most heavily for data handling across all payments operations?



The challenges of growing payments volumes

With an explosion in the volume and complexity of payment transactions in recent years – particularly through fragmentation associated with digital payments – the headaches have increased for payment operation and settlement teams.

In response, many firms rushed to make their products more scalable at the front end, without a proper understanding of the impact that would have on operations and settlement teams. Doing this has left many workforces overly stretched and unnecessarily increased hiring costs to backfill these teams. Additional pressures across the geographical reach of PSPs has only added to the need for enhanced data transparency, speed, accuracy and accountability of operational processes.

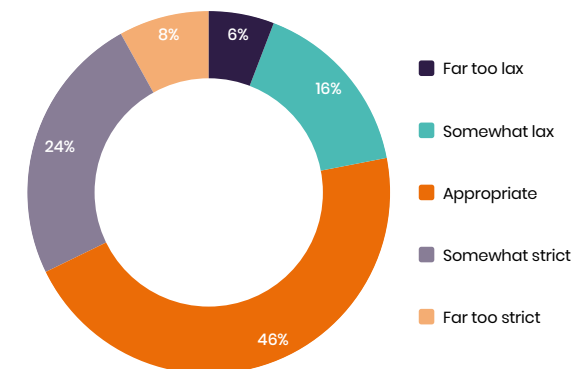
Firms should be conscious that managing and reconciling growing data volumes with spreadsheets or in-house solutions is a task of infinite complexity. Even worse is that operational inefficiencies arise when we continue using these outdated solutions, which often rely on internal servers, require continual hardware maintenance and are not scalable to business growth.

“ Firms should be conscious that managing and reconciling growing data volumes with spreadsheets or in-house solutions is a task of infinite complexity. ”

What do firms think about their jurisdiction’s regulatory body audit and control?

When asked about their jurisdiction’s regulatory body audit and control around current regulatory reporting infrastructure, the answers were fairly mixed. Almost half of respondents consider it appropriate (46%) while a third consider it too strict (32%) and 22% considered it somewhat or far too lax.

How would you characterise your jurisdiction’s regulatory body audit and control around your current regulatory reporting infrastructure?



When we look at the geographical breakdown of responses, we see that those financial institutions in central and south America were considerably more likely to view their regulators as lax than was the case with their European and Asia Pacific counterparts.

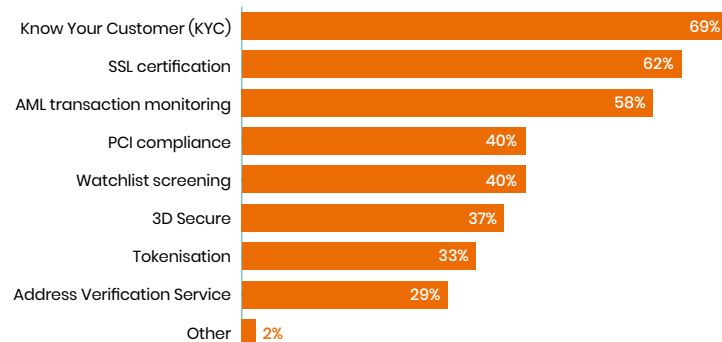
What client money procedures are in place?

To ensure client money is appropriately safeguarded, firms are most likely to employ KYC (69%), SSL certification (62%) and AML transaction monitoring (58%).

Some answers here will clearly be determined by the types of institutions and their activities. Nevertheless, the breadth of potential solutions needed to safeguard client money effectively reflects the complexity surrounding this area. It is entirely understandable that many institutions are applying multiple measures.

Regulators have always been heavily focused on firms' compliance with client money rules, but this has intensified since the financial crisis, which highlighted the importance of proper segregation and reconciliation of client money. In recent months, the regulatory spotlight has turned to those in the ever-growing non-bank Payment Service Provider (PSP) sector and Electronic Money Institutions (EMIs).

What procedures do you have in place to ensure client money is safeguarded? (Select all that apply)



Consistent with the rest of our findings, reliance on manual processes will reduce competitiveness, heighten costs and increase the risk of error – all of which are especially important in a digital, 24/7 world. Firms will not need reminding the financial and reputational risk this entails.

While effective client money procedures is deemed best practice in the payments industry, banks should certainly follow suit as ring-fencing client funds against operational funds will be essential moving forward.

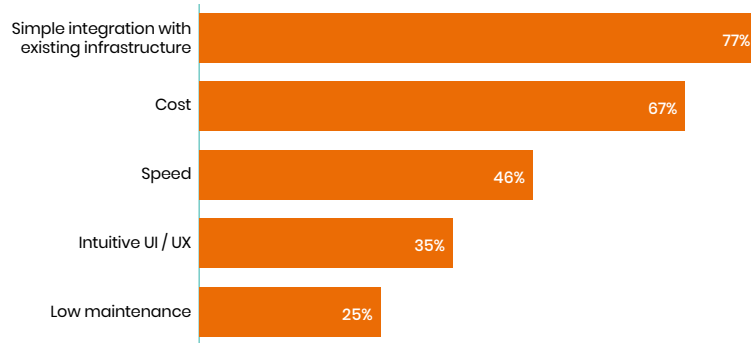
How are firms selecting a system for handling payments data?

Many banking firms have built their core infrastructure over time and include more than 20 disparate systems, none of which are designed to interact with one another. Because these systems are written in varying generations of software, the end result is siloed data and a multi-layered architecture. It is therefore no surprise that almost 8 in 10 respondents here point to simple integration with existing infrastructure as a key factor when selecting a solution for handling payments data.

Without an integrated architecture, banks cannot hope to outgrow legacy systems and compete with market disruptors. This push for interoperable technologies is likely to mean an API-based solution – one that can automatically import and export data in any format, to and from any source, including accommodation of ISO20022 messaging.

“ Without an integrated architecture, banks cannot hope to outgrow legacy systems and compete with market disruptors. ”

What are your top three considerations when selecting a system for the handling of your payments data? (Select up to three.)



In today’s world, any system will need to be fully compatible with a cloud environment, including SaaS offerings. In addition, firms will need a single, consolidated platform with intelligent workflows to manage data flow and key activities.

Many firms with in-house systems have discovered that continually amending and updating these solutions, which are often rigid and inflexible, is a substantial task for IT teams as data needs and regulations change over time. With this in mind, it is entirely understandable that one-quarter of respondents say that low maintenance is a key factor when selecting a system for handling payments data.

In addition to simple integration and low maintenance, two-thirds of respondents are conscious of cost, while just under half are conscious of speed when selecting a solution.

Growth targets and possible impediments to growth plans

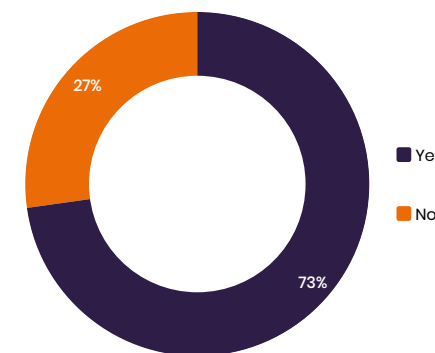
Particularly notable are the concerns from the vast majority of respondents that scalability and regulatory pressures could or most likely will impede growth plans over the next three years.

Half believe this to definitely or probably be the case, with another 38% seeing it as a possibility. Of the questions put to the respondents, this one elicited the most clear-cut answers.

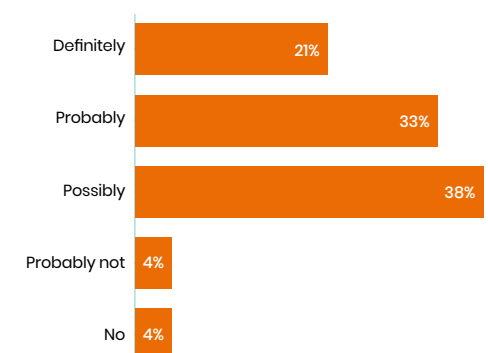
The pressure is likely to be two-pronged – external changes comprising further regulatory changes and further payment volumes and complexity, alongside internal issues, as noted above.

Clearly this speaks to a loss of competitiveness that is likely to hit firms’ bottom lines unless addressed.

Has your organization achieved its growth targets in the last 18 months?



Will scalability and regulatory pressure impede growth plans over the next three years?



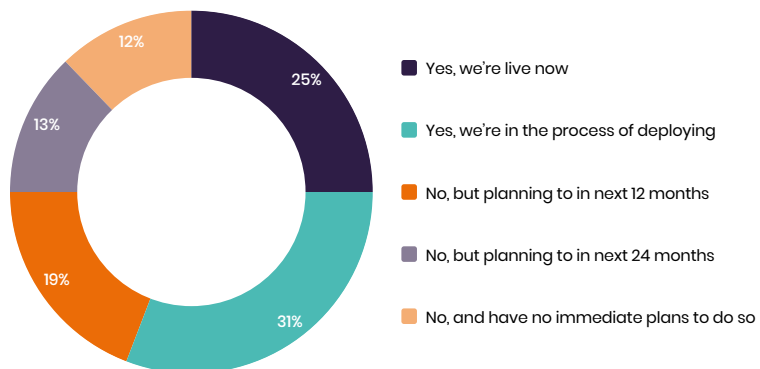
Use of AI, ML and APIs to enhance data management processes

Help is on the way for many institutions in the form of emerging technologies such as AI, ML and APIs. Reflective of this trend, only a small set of respondents (12%) have no plans to apply technology to resolve business issues. From other respondents, technology is either in place (one-quarter), under implementation (31%) or planned (42%).

These new technologies are intended to create the interoperability that so many institutions are clearly missing, as well as remove or significantly reduce manual interventions and use of spreadsheets.

Applying an AI, ML and API-based platform can elevate rates of reconciliation matching for one to one, many to one, and many to many scenarios. Such solutions carry additional benefits of superior exception management, breaks management, categorisation and ageing.

Has your organisation implemented modern technology such as AI, ML, APIs to help monitor and streamline your current data management processes?



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Using technology to streamline process flow will allow firms to ingest, validate and enrich data to guarantee validity and transparency, as well as bringing resilience and flexibility for future requirements – a highly desirable goal for regulatory reporting.

In turn, this should release staff from laborious manual processes to refocus on more complex tasks, alleviate dependencies on IT teams through configurable user interfaces and remove limitations on scalability.

The bottom line

Above all, the findings discussed in this report demonstrate how more firms are pushing for automation to enhance data management, increase efficiency and gain a significant advantage over competitors. Slow-movers should ultimately be aware that those who fail to adopt emerging technologies will find themselves falling behind in an increasingly fast-moving and competitive landscape.

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