

# Why modernized payment architecture is a must to embrace emerging payment trends

The payments sector is evolving rapidly with, for example, the emergence of real-time payment rails, ISO 20022 adoption, cryptocurrencies, Generative AI applications, and modern messaging technologies. Financial institutions need a common approach to support payments innovation, with a shift occurring to central platforms that can support multiple payment types rather than siloed engines.

58%

of banks will increase their spend on **payment hubs** in 2024

Global spend on payment hubs is expected to grow at a CAGR of

9%

to reach \$3.1bn in 2027, compared with \$2.0bn in 2022

Alongside the changes in business architecture, financial institutions are reviewing the technical architecture changes needed to deliver operational efficiency, agility, scalability and resilience.

A new report by Omdia highlights key architectural considerations that must be borne in mind when planning your modernization journey.

The increasing global adoption of instant payments is a major area forcing the pace of payments modernization as their operational characteristics (24x7 availability, secure, resilient, fast, elastic scalability) is an excellent example of the need to implement cloud-native technologies (e.g., microservices, containers, container orchestrators, distributed data streaming) to enable financial institutions to deploy or onboard to a solution that is responsive, scalable, and fault tolerant.

62%

of corporate banks believe the move to real-time payments has helped change the way they approach delivering new products and services.

66%

expect the move to real-time payments will increase their revenue from cash and liquidity management services.

## The cost of not modernizing

Many banks are investing heavily in new technologies to drive their digital transformation despite the tough environmental outlook. From a technology perspective, cost management pressures will remain strong. While this has impacted overall technology spending (and will continue to), it is balanced to some extent by the role technology plays in increasing automation and customer self-service.

Over 64%

of corporate banks' global technology budget is spent on maintaining existing legacy technology in 2024.

and just 36%

is allocated to either growing or transforming their technology.

It's not difficult to see how this arises. Tight delivery deadlines and budget constraints mean that meeting new compliance or regulatory changes, or supporting an enhancement of their existing services, is often achieved by patching their existing system, making sacrifices, taking shortcuts, or using workarounds. But such compromises mount up and cause technical debt within their payments infrastructure, hampering their ability not only to innovate and respond to the dynamic market requirements, but also efficiently operate and deliver payment services and accommodate volume increases. Financial institutions are realizing that with the frequency of changes that they now need to deal with they are at a tipping point.

## The top priorities for payment infrastructure investment

44%

to launch innovative new products in response to the competition

43%

to improve customer experience

40%

for regulatory compliance and customer protection requirements

Payment hubs with extensive features and functionality in-built are less of a factor for banks when deciding who to partner with. The agility, resiliency and flexibility of the platform, and the reliability of the vendor in supporting its customers being the most important criteria; a demonstrable track record of successful delivery and ongoing support is vital.

## Essentials of modernization

The Omdia report identifies a number of key attributes of a modernized payment hub:

- Microservices and APIs to provide access to fine grained services, delivering agility and supporting composable banking models
- Use of cloud-native technologies for a responsive, scalable, fault-tolerant solution
- Cloud deployment by default – including SaaS options
- Use of ML and Gen AI to deliver data insights and increased observability and system monitoring capabilities
- Pre-configured, best practice payment workflows and business rules minimizing the need for code changes

As new models such as Open Banking and Open Finance become the norm, payment solutions will need to transition to smaller, composable, microservices-based standalone components that can be easily integrated through APIs enabling co-innovation with the growing ecosystem of specialist fintech services.

Corporate banks have the appetite to embrace open banking:

Over 70%

of respondents have plans to provide their clients with enhanced transactional data.

60%

of banks plan to provide their corporate clients with API access to account data and incorporate third-party services and/or data from other financial institutions into their propositions.

By adopting a modern payments hub solution, leveraging cloud-native technologies, DevOps practices and open architectures, banks can embrace change, drive innovation, and focus on service excellence. Finastra's payment hub solutions **Global PAYplus** and **Payments To Go** open the door to this new world of payments.

Contact us today

Download the full report to understand the urgency behind payments modernization initiatives and why banks risk losing their competitive edge, or even ability to operate in an increasingly regulated landscape, if modernization plans are delayed further. Discover how financial institutions can approach the payment modernization journey, including identifying the right vendor partner, and the key factors that can help them establish a foundation for sustained growth and future innovation.

Download full report