



Payments modernization as a catalyst for growth



The rapidly evolving global payments landscape is accelerating the pace of change in banking. At the same time, it's creating opportunities for growth and innovation. Market forces such as instant payments and new regulatory mandates like ISO 2022 are serving as watershed moments — and proving a springboard for banks to provide better payment experiences and value-added services for corporate customers. These are catalysts for payments modernization across the industry as financial institutions look to grow and strategically position themselves, now and in the future.

Market forces shaping the new era in payments

Instant payments and ISO 2022 are part of a pattern of broader trends reshaping the banking landscape. Payments modernization is not just a tech upgrade; it's a strategic repositioning that unlocks new avenues for growth, innovation, and competitive advantage.

Here are some of those forces and trends, including but not limited to:

Instant payments going mainstream

Forget the days when 'quick' payments took hours or even days. Transactions are now nearly instantaneous, making payments more convenient for both corporations and customers alike. This speed is not just a shiny feature — payments now come with added potential benefits like richer data for each transaction.

A foundation regulation: ISO 2022

ISO 2022 is becoming the new global standard with an industry mandate for high value payments. This standard is about uniformity and setting the stage for next-level financial services globally.

Data is the new oil

ISO 2022 messaging, Open Banking and APIs are turning data into a treasure trove of opportunity. Banks and financial institutions can harness this data to identify new revenue streams while delivering added-value services to customers.

Partnerships get strategic

Gone are the days when banks operated in isolation. Today, joining forces with technology giants and other big players in payments is essential. Through acquisitions and strategic partnerships, banks can widen their service offerings and reach scale more quickly.

Payments are being disintermediated

Payments aren't just the territory of traditional banks anymore. Fintechs and other newcomers are bringing fresh ideas and solutions, challenging the status quo and compelling everyone to innovate.

B2B payments and embedded finance

The rapid growth of digital solutions isn't just changing how we pay for a cup of coffee — it's transforming business payments as well. Embedded finance options offer companies smarter, more integrated ways to handle money, unlocking major benefits in the process.

The world's your marketplace

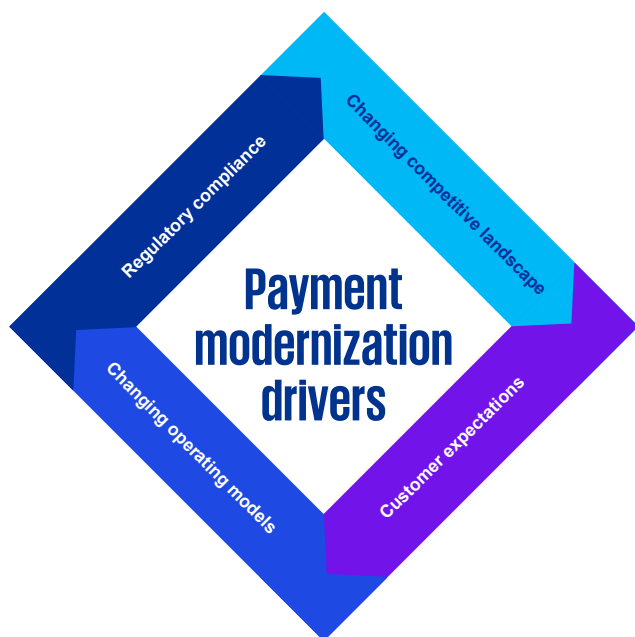
With increasing globalization and ecommerce, the need for efficient cross-border payments is greater than ever. Banks can streamline these complex transactions, for faster, more accessible trade.

Payments modernization spans the front-end digital experience to the back-end payment platforms across all payment types. Banks of all sizes need to keep up and stay relevant. This means moving from legacy payments infrastructure to new modern platforms that are flexible and adaptable enough to accommodate this new payments reality.

Market forces driving payments modernization

Banks and financial institutions are facing market forces never seen before, such as the upcoming ISO 20022 mandate and instant payments — amid a customer-led, fiercely competitive landscape.

These drivers are resulting in payments platform modernization being one of the highest investment priorities. Increasingly, future-ready payments infrastructure is seen by banks as an essential step to meet regulatory compliance mandates and a key enabler for scalable growth and innovation. Let's look closer at some of most significant and topical catalysts for change: **regulatory compliance, changing operating models, changing competitive landscape and increased customer expectations.**



Regulatory compliance: The regulatory catalyst

Regulatory requirements are constantly evolving, such as the ISO 20022 standard adoption for high-value clearings. This is a foundational part of payments modernization as is the introduction of instant payments and meeting privacy regulations across different jurisdictions. Plus, the incremental data provides additional context that paves the way for enhanced analytics and valuable insights into customer behaviors and needs. Recent research and surveys by KPMG identified that:

- 64 percent of US banks surveyed believe regulatory uncertainty is on the rise¹
- 57 percent of UK banks surveyed say regulatory requirements are driving change²

Changing operating models: The operational catalyst

As margins are compressed, the need to drive more efficiencies and contain costs is even greater. A future ready modernized payments platform capable of processing legacy and new payment types and aligned to an effective API first and open banking strategy will foster streamlined operations and adaptability to future requirements. This strategic shift enables banks to be more competitive and fuel scalable and sustainable growth. KPMG research highlights that:

- Compressed margins make operational efficiency crucial, with 58 percent of US banks finding it significant or very significant³
- 31 percent of UK respondents are focused on payment engine modernization⁴

Changing competitive landscape: The innovation catalyst

The digital age has fundamentally shifted how businesses interact with their customers. Platform business models have become the default destination for customer experiences. Partnerships with platform ecosystem players are now key to compete effectively and deliver greater value to customers. Plus, there's increased pressure from payments fintech providers. KPMG surveys show that:

- US surveyed banks view emerging/disruptive technology as the second biggest threat to growth in the next three years, followed by cybersecurity risk⁵
- 40 percent of UK financial institutions say their payments modernization programs are driven by competitors' actions⁶

Increased customer expectations: The experience catalyst

Experience is the new currency. The quality of customer experience — for individual and corporate customers alike — serves as a crucial differentiator for banks. Convenient and flexible payments options and simplified payments processing are increasingly important to meet customers and corporates increased expectations. A modern payments platform is also key to an effective API-first and open banking strategy. Of the banks surveyed, our research shows that:

- 59 percent of US banks believe they need to do more to digitize customer-facing processes⁷
- 69 percent of UK banks say their modernization programs reflect changing customer expectations⁸

¹ <https://advisory.kpmg.us/articles/2023/banking-top-10.html>

² <https://kpmg.com/uk/en/home/insights/2023/07/payments-modernisation-what-is-the-future-of-payments.html>

³ <https://advisory.kpmg.us/articles/2023/banking-top-10.html>

⁴ <https://kpmg.com/uk/en/home/insights/2023/07/payments-modernisation-what-is-the-future-of-payments.html>

⁵ <https://advisory.kpmg.us/articles/2023/banking-top-10.html>

⁶ <https://kpmg.com/uk/en/home/insights/2023/07/payments-modernisation-what-is-the-future-of-payments.html>

⁷ <https://advisory.kpmg.us/articles/2023/banking-top-10.html>

⁸ <https://kpmg.com/uk/en/home/insights/2023/07/payments-modernisation-what-is-the-future-of-payments.html>

Aligning payments modernization strategy

In an era of rapid digital technology advances and rising consumer expectations, banks cannot afford to view instant payments and ISO 20022 in isolation. There's a much broader payments modernization strategy in play: it's about knitting together these disparate yet interconnected elements into a comprehensive vision for a bank's future in the payments landscape.

At its heart, a payments modernization strategy should recognize the interconnectedness of regulatory compliance, changing operating models, customer experience and competitive agility. This can enable them to reposition, adapt and thrive amid ongoing disruptions and opportunities.

The potential benefits of payments modernization

Payments modernization is one of the highest priority investment areas for banks of all sizes. Banks are increasingly viewing modernized payments infrastructure as a necessary step to meet regulatory compliance mandates and as a key enabler of scalable growth and innovation. There are major potential benefits to modernized payments platforms, including:

Reusability and economies of scale

As banks adopt key industry changes, such as ISO 20022 and instant payments, a modern payments platform can leverage reusable components to simplify the introduction of new payment schemes.

Infrastructure simplification

Banks can simplify the architecture of legacy and new payment rails including High Value, Low Value and instant payments, while leveraging the infrastructure for open banking and seamlessly integrating partners and third-party providers.

Product standardization

Automating processes reduces manual work and errors by leveraging consolidated data, reporting and integrations. Standardized automation processes can be reused for increased speed to market.

Streamlined operations

Legacy systems that are siloed and disparate can increase operational and customer service overhead, leading to manual processing and delays. A modernized payments infrastructure can standardize business and customer service operations, significantly reducing costs.

Fraud, risk and limit management

Fraud and risk management scanning can be enhanced with the availability of more consolidated and standardized data. Robust limit management can also be used across payment rails to provide a holistic exposure view. Enhanced data improves regulatory reporting.

Product innovation

A future-ready modernized payments platform capable of processing legacy and new payment types is increasingly important to meet the rising expectations of customers and corporates. A modern payments platform is key to an effective API first and open banking strategy and a core enabler for scalable growth and innovation.



ISO 20022 and instant payments represent watershed moments in payments and are catalysts for change by creating opportunities for banks to provide a better payment experience and value-added solutions for corporates. These market forces make modernizing their payments platforms essential. By developing a comprehensive payments modernization plan, banks can take full advantage of market opportunities and position themselves for growth and innovation

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How KPMG firms can help

Our global payments teams are ready to help you approach your complex payments modernization challenges. No matter where you are on your journey, our services and solutions can be aligned with your bank's specific needs, including:

1. Payments strategy development

Our in-depth approach aims to develop a holistic payments strategy, looking at your current payments capabilities aligned with industry insights and market forces. This informs a strategic execution roadmap to help position your organization for future growth and innovation.

2. Vendor and partner evaluation

We leverage our extensive market knowledge to help choose the best technology partners and solutions, customized to your organization's specific needs.

3. Payments platform modernization/implementation

We leverage our robust library of accelerators to implement modernized payments platforms across all payment types. Our services span the full delivery value chain including implementation planning, front-to-back business technology implementation and operational readiness support, enabling your bank to go-live in the market.

Final thoughts: Strategic opportunities of payments modernization

Banks and financial institutions are facing market forces never seen before, such as the ISO 20022 mandate and instant payments — amid a customer-led, fiercely competitive landscape. These key trends are proving to be a springboard for banks to provide better payment experiences and value-added services for corporate customers. Plus, they serve as catalysts for payments modernization across the industry as financial institutions look to grow and strategically position themselves, now and in the future.

A future-ready payments infrastructure is an essential step to meet regulatory compliance mandates and a key enabler for scalable growth and innovation.

Let's continue the conversation

We invite you to reach out to us to learn more about the modernization trends in payments happening today and how they might impact your organization and your clients tomorrow.

We hope this paper provides food for thought, payments insights, and gives you a brief look at KPMG firms' capabilities. To find out more about how we can help, please don't hesitate to get in touch with one of our team of professionals — we're always ready to discuss and offer advice on your payments challenges, strategies, processes, partners and technologies.

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