

Payments Back-Office Under Pressure

By Jeroen Hölscher

Make a virtue
of necessity

The back-offices of many banks are under a tremendous amount of pressure from a variety of sources. One of the primary causes is the introduction of regulations such as SEPA and PSD1, which have had a major impact on the core systems at banks.



There are often separate solutions for domestic and international payment services. SEPA replaces the domestic solutions and only a part of the international ones. In the rat race to meet compliance deadlines, it is a considerable challenge to be able to align everything once again. Strict requirements are imposed on security and uniformity, as a result of which the core processes involved in transactions, are becoming nearly identical at all banks. In those areas where it is nearly impossible to make a distinction, the initial reflex is often to minimize costs. This is a one-sided reflex since there is a lot more to it than this. The back-office is more than a mere processing machine; it can also be a source of valuable information, provided this is structured well.

The growth in the number of payment options at the front end of the payment value chain has a significant impact on the processes and systems in the back-office. This is where everything must come together, and in a logical manner; this is where the opportunities for innovation can be found. However, separate hubs are being set up for an increasing number of channels, and customer profiles are being fragmented as a result, making it difficult to maintain an integrated image of customers. Payments via the internet, mobile apps, debit or credit cards are often processed separately; there is a lack of cohesion.

Resilience

There is another reason to invest in the back-office. The front-office is being subjected to changes at an ever-rapid rate of speed, and the back-office must be able to increase its flexibility in order to keep up with all these developments. In fact, it is the back-office that determines a bank's resilience and capacity to innovate. A good reason, therefore, to think carefully about the structure of the back office. It is key to ensure that it can continue to remain perfectly synchronized with the choices that are made in the front office, whether this involves a new product or an entirely new channel.

Payment hub

One good way to do this, is to create a flexible payment hub that acts as the beating heart of the back-office, where all of the transactions come together, whether they are performed online or presented in batches. A hub is a valuable solution which can also generate a wealth of customer information. It enriches information from the various channels, verifies and validates transactions, and authorizes a variety of different payment orders for customers. The technology is already available; it is the willingness to invest that is crucial. Banks should be wary of getting caught in the trap of cost-minimization; instead they should take a strategic position and realize that the back-office is actually extremely valuable in order to ensure continued versatility. Banks therefore face important choices. They must decide how they would like to set themselves apart and in which areas, and structure the back-office accordingly. This also affects the employees and the processes they must implement. The hub is merely the enabler in this.

Pitfalls

There are more pitfalls that can occur during the implementation of a new back-office. It is not only important to ensure that the technology is running properly, but also (and mostly) crucial to redesign the business and operating model. In addition, the introduction of a single, central hub involves more than just technology. It becomes the focal point in the payment "web", with branches going off into domains such as Billing, Financial Markets and Contracts. This makes implementation extra complex. Finally, there is often too little focus on the proposition, and the organization tends to concentrate more on the rollout of the platform itself than delivering the products via the platform. We see the same thing in budget allocation, when there is too much emphasis on the engine instead of the new value proposition. The introduction of a central hub is certainly valuable, yet only represents the tool for implementing new policy. This policy, not the hub, ultimately determines whether or not the bank will survive these turbulent times.

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